STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

DEAN H. SEKI
COMPTROLLER

HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2012

DEAN H. SEKI
COMPTROLLER

Prepared by Accounting Division
Department of Accounting and General Services

Independent Audit Contracted and Administered by
Office of the State Auditor

STATE OF HAWAII

Comprehensive Annual Financial Report
Table of Contents

June 30, 2012

PART I: INTRODUCTORY SECTION

	Page
Principal Officials for Finance-Related Functions	1
State of Hawaii Organizational Chart	2
Letter of Transmittal	3

PART II: FINANCIAL SECTION

Independent Auditors' Report	11
Management's Discussion and Analysis (Unaudited)	13
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	32
Statement of Activities	34
Fund Financial Statements:	
Balance Sheet – Governmental Funds	35
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	36
Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Funds	37
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	38

Comprehensive Annual Financial Report
Table of Contents

June 30, 2012

	Page
Statement of Net Assets — Proprietary Funds	39
Statement of Revenues, Expenses, and Changes in Net Assets — Proprietary Funds	41
Statement of Cash Flows — Proprietary Funds	42
Statement of Fiduciary Net Assets — Fiduciary Funds	44
Statement of Net Assets — Component Units	46
Statement of Revenues, Expenditures, and Changes in Net Assets — Component Units	50
Notes to Basic Financial Statements	52
Required Supplementary Information (Unaudited):	
Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) — General Fund	113
Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) — Med-Quest Special Revenue Fund	114
Notes to Required Supplementary Information	115
Reconciliation of the Budgetary to GAAP Basis — General Fund and Med-Quest Special Revenue Fund	116
Schedules of Funding Progress	117

Comprehensive Annual Financial Report
Table of Contents

June 30, 2012

	Page
Supplementary Information:	
Combining and Individual Fund Statements and Schedules:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	120
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	122
Combining Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) — Nonmajor Special Revenue Funds	124
Reconciliation of the Budgetary to GAAP Basis — Nonmajor Special Revenue Funds	130
Nonmajor Proprietary Funds:	
Combining Statement of Net Assets	131
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	133
Combining Statement of Cash Flows	134
Fiduciary Funds:	
Combining Statement of Fiduciary Net Assets — Agency Funds	136
Combining Statement of Changes in Assets and Liabilities — Agency Funds	137

PART III: STATISTICAL SECTION (UNAUDITED)

Schedules of Financial Trends Information:	
Net Assets by Component, Last Five Fiscal Years	140
Changes in Net Assets, Last Five Fiscal Years	141
Fund Balances, Governmental Funds, Last Five Fiscal Years	142
Changes in Fund Balances, Governmental Funds, Last Five Fiscal Years	143

Comprehensive Annual Financial Report
Table of Contents

June 30, 2012

	Page
Schedules of Revenue Capacity Information:	
Personal Income by Industry, Last Ten Fiscal Years	144
Personal Income Tax Rates, Last Six Calendar Years	145
Personal Income Tax Filers and Liability by Income Level, Calendar Years 2006 and 1999	146
Taxable Sales by Industry, Last Five Fiscal Years	147
Sales Tax Revenue Payers by Industry, Last Five Fiscal Years	148
Schedules of Debt Capacity Information:	
Ratios of Outstanding Debt by Type, Last Five Fiscal Years	149
Ratios of Net General Bonded Debt Outstanding, Last Five Fiscal Years	150
Legal Debt Margin Information, Last Five Fiscal Years	151
Pledge Revenue Coverage, Last Five Fiscal Years	152
Schedules of Demographic and Economic Information:	
Demographic and Economic Statistics, Last Ten Fiscal Years	153
Ten Largest Private Sector Employers, Last Six Fiscal Years	154
State Employees by Function, Last Five Fiscal Years	155
Schedules of Operating Information:	
Operating Indicators by Function, Last Five Fiscal Years	156
Capital Assets Statistics by Function, Last Three Fiscal Years	158

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PART I: INTRODUCTORY SECTION

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STATE OF HAWAII

Principal Officials for Finance-Related Functions

June 30, 2012

Dean H. Seki
Comptroller

Maria E. Zielinski
Deputy Comptroller

Governor	**Neil Abercrombie**
Director of Finance	**Kalbert K. Young**
Director of Taxation	**Frederick D. Pablo**
Comptroller	**Dean H. Seki**
Deputy Comptroller	**Maria E. Zielinski**

Notes:

The Director of Finance is also department head of the Department of Budget and Finance.

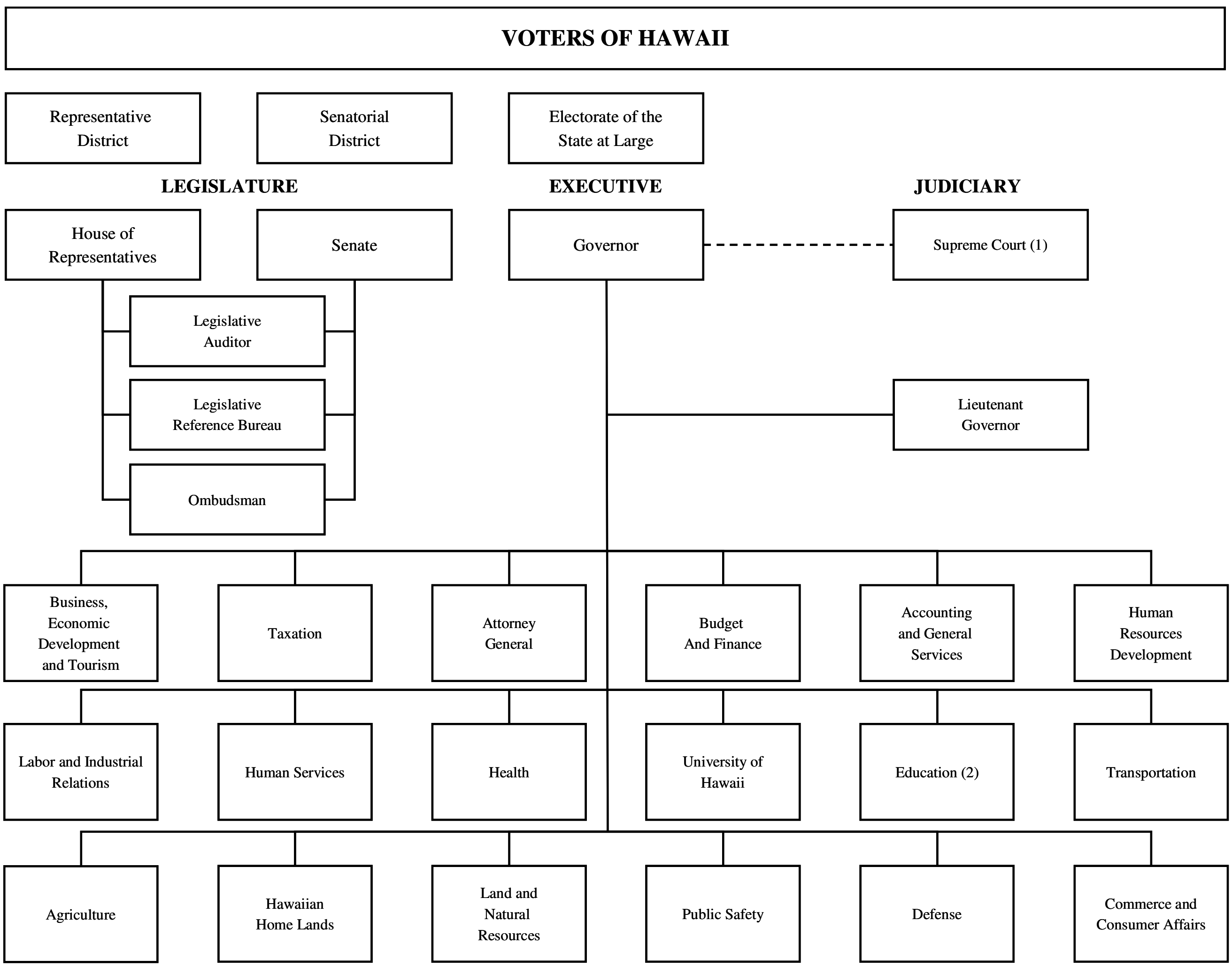
The Comptroller is also department head of the Department of Accounting and General Services.

An organizational chart including those and other departments and agencies of the State of Hawaii government is presented on the following page.

STATE OF HAWAII

Organizational Chart

June 30, 2012



(1) The Governor's appointment of justices of the Supreme Court confirmed by the Senate.

(2) The Board of Education is appointed by the Governor.

NEIL ABERCROMBIE
GOVERNOR

Dean H. Seki
Comptroller

Maria E. Zielinski
Deputy Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING
AND GENERAL SERVICES
P.O. BOX 119
HONOLULU, HAWAII 96810-0119

January 23, 2013

To the Honorable Governor of the State of Hawaii
To the Honorable Members of the Twenty-Seventh State
Legislature of the State of Hawaii:

In accordance with the provisions of Section 40-5 of the Hawaii Revised Statutes, it is our privilege to present to you the Comprehensive Annual Financial Report (CAFR) of the State of Hawaii (State) for the fiscal year ended June 30, 2012. The State's Department of Accounting and General Services has prepared this report. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the State. We believe the information, as presented, is fairly stated in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the State as measured by the financial activity of its various funds; and that all the information necessary to enable the reader to gain the maximum understanding of the State's financial affairs has been included.

The report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the State's organizational chart, and a list of principal officials. The financial section includes the independent auditors' report, management's discussion and analysis (MD&A), basic financial statements, notes to basic financial statements, and supplementary information. The statistical section includes selected financial and demographic information.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments,* requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of an MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A is included in Part II of this report.

THE REPORTING ENTITY AND ITS SERVICES

With Hawaii's highly centralized state government, the State provides a full range of services as mandated by statute. These services include, but are not limited to, education (lower and higher), welfare, transportation (highways, airports, and harbors), health, hospitals, public safety, housing, culture and recreation, economic development, and conservation of natural resources.

This report includes the various funds comprising the State, including all entities that are accountable to the State. The Employees' Retirement System of the State of Hawaii, which is administered on behalf of public employees for both the state and county governments, and the Office of Hawaiian Affairs, which exists for the betterment of the conditions of native Hawaiians, are not included in the State's basic financial statements because those agencies, based on their fiscal independence and/or separate legal entity status, are not accountable to the State.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the basic financial statements is perhaps best understood when considered from the broader perspective of the specific environment within which the State operates.

State of the Economy

Overview

During the first nine months of 2012, Hawaii's economic indicators for the tourism industry, tax revenues, the construction industry, and unemployment were all positive. The civilian labor force decreased while total wage and salary jobs increased.

Labor

After ten consecutive quarterly decreases in jobs from the second quarter of 2008 to the third quarter of 2010, Hawaii's jobs increased for the eighth consecutive quarter. During the first nine months of 2012, Hawaii's total civilian employment averaged 610,250 persons, a decrease of 6,200 persons or 1.0% over the same period in 2011. The number of wage and salary jobs was up 7,800 to 604,300 for an increase of 1.3%. Job increases were most notable in food services & drinking places (2,850), accommodation (2,250), retail trade (1,200), and transportation, warehousing & utilities (1,050). A few sectors experienced declines including government (350), agriculture wage & salary jobs (350), information (350), and other services (350). Hawaii's civilian unemployment rate (not seasonally adjusted) averaged 6.2% for the first nine months of 2012, compared to 6.8% for the same period in 2011.

Taxes

Tax revenues distributed to the State's General Fund increased $441.4 million, or 12.5%, during the first nine months of 2012 compared to the same period in 2011. All components reflected an increase during this same period. Individual net income tax collections increased $120.5 million or 11.0%, general excise and use tax (GET) collections increased $193.2 million, or 9.9%, and transient accommodations tax (TAT) collections were up $31.0 million, or 13.3%.

Personal Income

Total nominal personal income, not adjusted for inflation, increased $3.5 billion, or 3.0% in the first half of 2012 compared to the same period in 2011. Among its components, the fastest growth was seen in proprietors' income of 4.9%, supplements to wages and salaries of 4.2%, and wages and salary disbursements of 2.7%. Contributions for government social insurance, which are subtracted from personal income, decreased by 3.5%.

Prices

Honolulu's consumer price index (CPI) increased 2.8% for the first half of 2012 compared to the same period in 2011, higher than the 2.3% United States (U.S.) average CPI-U increase. The Honolulu increase was primarily due to increases in food and beverage (4.5%), education and communication (4.1%), and medical care (3.7%). The prices also increased for recreation (2.6%), apparel (2.4%), housing (2.3%), transportation (2.1%), and other goods and services (1.1%).

Recent Developments in Hawaii's Major Industries

Visitor Industry

In the first nine months of 2012, total visitor arrivals by air increased 492,542 or 9.2% compared to the same period of 2011. Domestic arrivals (visitors on flights originating inside of the U.S.) increased 4.7% while international arrivals increased 20.6%. Similarly, total visitor days (visitor arrivals multiplied by average length of stay) were up 9.0% in the first nine months of 2012 compared to the same period of 2011 and total visitor spending increased $1.7 billion or 19.4% over the same period. Statewide hotel occupancy rate averaged 77.8% in the first nine months of 2012, 4.0% higher than the average rate during the same period of 2011.

Construction

Hawaii's construction industry was one of the major contributors to job growth during the 2002-2007 years. Since the second quarter of 2008 to the second quarter of 2012, the quarter-over-quarter growth rate has been negative. However, in the third quarter of 2012, the construction sector gained 400 jobs or 1.4% compared with the same quarter of 2011. During the first nine months of 2012, construction jobs decreased by 200 or 0.7% compared to the same period of 2011. The total value of new private building authorizations increased $530.8 million or 39.1% for the first nine months of 2012 compared to the same period of 2011.

Outlook for Hawaii's Economy

The latest Department of Business, Economic Development and Tourism (DBEDT) forecast for Hawaii's economy is continued positive growth for the rest of 2012 and into 2013. Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies. International conditions or prospects that affect Hawaii's economy such as the European debt crisis, China domestic demands and natural disaster recoveries in Japan, Thailand, Australia and New Zealand. The August 2012 Blue Chip Economic Consensus Forecasts expected real GDP growth in 2013 to increase 2.1% for the U.S. and 1.6% for Japan.

In 2013, visitor arrivals, visitor days, and visitor expenditures are predicted to increase 3.9%, 3.7%, and 5.2%, respectively.

DBEDT projects total non-agricultural wage and salary jobs to increase 2.0% in 2013. Real Personal Income is expected to increase 2.3% in 2013 with real GDP projected to increase 2.4% in 2013.

DBEDT projects Hawaii's inflation, as measured in terms of changes in the Honolulu CPI, to increase 2.4% in 2013. The State GDP deflator is expected to grow 2.3% in 2013.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

In developing and maintaining the State's accounting system, consideration is given to the effectiveness of internal control, which is designed to accomplish certain objectives of management, including:

1. Transactions are executed in accordance with management's general and specific authorization.
2. Transactions are recorded as necessary to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and to maintain accountability for assets.
3. Access to assets is permitted only in accordance with management's authorization.

Internal controls are designed to provide reasonable, but not absolute, assurance that the above objectives were accomplished. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from that control. The evaluation of costs and benefits requires estimates and judgments by management. We believe that the State's internal controls are effective in accomplishing management's objectives.

By statutory provision, the State prepares a biennial budget for its programs. Budgeted expenditures are derived primarily from the General Appropriations Act of 2011 and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes, and other specific appropriations acts in various Session Laws of Hawaii. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year.

An allotment system and encumbrance accounting are utilized by the State for budgetary control purposes. Obligations in the form of purchase orders or contracts are recorded as encumbrances at the time purchase orders or contracts are awarded and executed. To the extent not expended or encumbered, General Fund and Special Revenue Fund appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorizations for other appropriations.

RISK MANAGEMENT

The State has insurance policies with a variety of insurers for property coverage for its buildings, contents and equipment. The coverage includes loss from fire, boiler & machinery, terrorism coverage, as well as windstorm, flood, tsunami and earthquake damage. The State also purchases excess liability insurance, medical insurance, faithful performance of duty, and depositors & forgery insurance for state employees, but is self-insured for other perils, including workers' compensation and automobile losses. Expenditures for workers' compensation, automobile losses, and general liability (for amounts not covered by insurance) are appropriated annually.

EMPLOYEE UNION CONTRACTS

The State Constitution grants public employees in Hawaii the right to organize for the purpose of collective bargaining as provided by law. There are 13 bargaining units, of which 12 bargaining units have state employees as members. Eight of the twelve bargaining units have contractual agreements to June 30, 2012. The remaining four bargaining units are currently engaged in the collective bargaining process with the employer.

INDEPENDENT AUDIT

Although the State statutes do not require an annual audit of the State's financial statements, the State engaged a firm of independent certified public accountants to audit the State's basic financial statements for the fiscal year ended June 30, 2012. The independent auditors' report has been included in Part II of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association (GFOA) last awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008. This was the twentieth consecutive year that the State has received this prestigious award.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year.

The Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011 did not receive the Certificate of Achievement because of its late issuance. We believe our report otherwise met the certificate's requirements and intend to submit future reports to the GFOA to determine eligibility for the certificate.

ACKNOWLEDGEMENTS

We extend our appreciation to the staff of the various State agencies whose dedicated time and effort made the preparation of this report possible. Their combined efforts have produced a report that we believe will serve as a helpful source of information for anyone having an interest in the financial operations of the State.

Respectfully submitted,

DEAN H. SEKI
Comptroller, State of Hawaii

Maria E. Zielinski

MARIA E. ZIELINSKI
Deputy Comptroller, State of Hawaii

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PART II: FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2012, which collectively comprise the State of Hawaii's basic financial statements (pages 32–110) as listed in the accompanying table of contents. These financial statements are the responsibility of the State of Hawaii's management. Our responsibility is to express opinions on these respective financial statements based on our audit. We did not audit the financial statements of the Department of Transportation — Airports and Harbors Divisions, which are major enterprise funds, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, which are nonmajor enterprise funds, and the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation which are discretely presented component units. These financial statements that we did not audit reflect the following percentages of total assets and program revenues or additions for the indicated opinion units.

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Program Revenues/Additions
Governmental Activities	- %	- %
Business-Type Activities	97	57
Aggregate Discretely Presented Component Units	100	100
Fiduciary Funds	54	6

Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department of Transportation — Airports and Harbors Divisions, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Hawaii's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective net assets or financial position of the governmental activities, business-type activities, discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii, as of June 30, 2012, and the respective changes in financial position (and respective cash flows where applicable), thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 13-30), Schedule of Revenue and Expenditures – Budget and Actual (pages 113-116 and 124-130), and Schedules of Funding Progress (page 117) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the respective financial statements that collectively comprise the State of Hawaii's basic financial statements. The combining and individual fund statements and schedules (pages 120–123 and 131–137), introductory section (pages 1-7) and statistical section (pages 139-158) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of the State of Hawaii's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including compiling and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, the combining and individual fund statements and schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements by us or other auditors, and accordingly, we do not express an opinion or provide any assurance on them.

Deloitte + Touche LLP

January 23, 2013

As management of the State of Hawaii (the "State"), we offer readers of the State's basic financial statements this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our letter of transmittal, which can be found on pages 3–7 of this report.

Financial Highlights

Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2012 by $4.5 billion (net assets). Unrestricted net assets which may be used to meet the State's ongoing obligations to citizens and creditors was a negative $1.7 billion, an increase of $59.5 million from the previous year. Net assets of governmental activities and business-type activities decreased by $529.9 million and increased by $163.5 million, respectively. The combined decrease to the State was $366.4 million from the prior fiscal year.

Fund Highlights

At June 30, 2012, the State's Governmental Funds reported combined ending fund balances of $1.4 billion, an increase of $698.4 million from the prior fiscal year. Of this amount, $807.4 million, or 55.7%, of total fund balances was in the General Fund, and the remaining $642.4 million represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net assets at June 30, 2012, of $3.2 billion, an increase of $163.5 million during the fiscal year.

Liabilities

The State's liabilities increased during the current fiscal year to $12.2 billion, an increase of $1.1 billion. During fiscal 2012, the State issued General Obligations bonds in the amount of $486.2 million to advance refund $512.5 million of previously issued outstanding General Obligation bonds. In addition, the State issued $800 million in General Obligation bonds for the purpose of financing capital projects. The Department of Transportation issued $5.1 million in Highways Revenue bonds to advance refund $5.4 million in previously issued outstanding Highways Revenue bonds and $112.3 million for the purpose of financing highways capital projects. The Department of Transportation issued $300.9 million in Airports Revenue bonds to advance refund $322.7 million in previously issued outstanding Airports Revenue bonds.

In accordance with GASB No. 45, the State increased the liability for *Postemployment Benefits Other Than Pension,* to $2.6 billion, an increase of $568.3 million for the fiscal year ended June 30, 2012.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements are comprised of three components: (1) Government-Wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The Government-Wide financial statements are designed to provide readers with a broad overview of the State's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and unused vacation leave).

Both of the Government-Wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues ("governmental activities") from other functions that are intended to recover all or a significant portion of their costs through user fees and charges ("business-type activities"). The governmental activities of the State include general government, public safety, conservation of natural resources, highways, health, welfare, education, culture and recreation, urban redevelopment and housing, economic development and assistance, and interest on long-term debt. The business-type activities of the State include the Department of Transportation – Airports Division ("Airports"), Department of Transportation – Harbors Division ("Harbors"), and the Unemployment Compensation Fund, which are considered to be major funds, while the remaining business-type activities are combined into a single aggregate presentation.

The Government-Wide financial statements include not only the State itself (known as the "Primary Government"), but also the activities of seven legally separate Component Units: the Hawaii Community Development Authority, the Hawaii Health Systems Corporation, the Hawaii Housing Finance and Development Corporation, the Hawaii Hurricane Relief Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, and the University of Hawaii, comprised of the State's public institutions of higher education, for which the State is financially accountable. Financial information for these Component Units is reported separately from the financial information presented for the Primary Government itself. The Component Units issue separate financial statements containing management's discussion and analysis.

The Government-Wide financial statements can be found on pages 32–34 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State can be divided into three categories: (1) Governmental Funds, (2) Proprietary Funds, and (3) Fiduciary Funds.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the Government-Wide financial statements. However, unlike the Government-Wide financial statements, Governmental Funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements.

Because the focus of Governmental Funds is narrower than that of the Government-Wide financial statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the Government-Wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the Governmental Funds balance sheet and the Governmental Funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between Governmental Funds and governmental activities in the Government-Wide financial statements.

Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Capital Projects Fund, and Med-Quest Special Revenue Fund, each of which is considered to be a major fund. Data from the other Governmental Funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor Governmental Funds is provided in the form of combining financial statements in the supplementary information section of this report.

The State adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison schedule has been provided for the General Fund and each Special Revenue Fund to demonstrate compliance with this budget. The budgetary comparison schedule for the General Fund is located in the required supplementary information and the budgetary comparison statements for each of the Special Revenue Funds are located in the supplementary information section of this report.

The basic Governmental Funds financial statements can be found on pages 35–37 of this report.

Proprietary Funds

Proprietary Funds are used to show activities that operate more like those of commercial enterprises. They are known as Enterprise Funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the Government-Wide financial statements. The State uses Enterprise Funds to account for the operations of Airports, Harbors, the Unemployment Compensation Fund, and its other business-type activities.

Proprietary Funds provide the same type of information as the Government-Wide financial statements, only in more detail. The Proprietary Funds financial statements provide separate information for Airports, Harbors, and the Unemployment Compensation Fund, each of which are considered to be major funds of the State. Conversely, the other business-type activities are combined into a single, aggregate presentation in the Proprietary Funds financial statements.

The basic Proprietary Funds financial statements can be found on pages 39–43 of this report.

Fiduciary Funds

Fiduciary Funds are used to account for resources held for the benefit of parties outside the State. Fiduciary Funds are not reflected in the Government-Wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for Fiduciary Funds is much like that used for Proprietary Funds.

The basic Fiduciary Funds financial statements can be found on page 44 of this report.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the Government-Wide and fund financial statements. The notes to basic financial statements can be found on pages 52–110 of this report.

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents the combining financial statements referred to earlier in connection with nonmajor Governmental and Fiduciary Funds. These statements are presented immediately following the notes to basic financial statements. The total columns of these combining financial statements carry to the applicable fund financial statements.

Government-Wide Financial Analysis

The following financial analysis focuses on the Primary Government (governmental and business-type activities of the State). Separate financial statements for each of the State's Component Units, including their respective management's discussion and analysis, can be obtained from the Department of Accounting and General Services.

Net assets is a useful indicator of a government's financial position. For the State, total assets exceed liabilities by \$4.5 billion as of June 30, 2012, and net assets decreased \$366.4 million, or 7.5%, over the course of this fiscal year's operations. The net assets of the governmental activities decreased by \$529.9 million, or 28.5%, and business-type activities had an increase of \$163.5 million, or 5.4%. The following table was derived from the Government-Wide Statement of Net Assets.

Summary Schedule of Net Assets

June 30, 2012 and 2011
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	$ 3,001,480	$ 2,422,652	$ 2,369,460	$ 2,312,526	$ 5,370,940	$ 4,735,178
Capital assets, net	8,833,349	8,792,934	2,473,197	2,409,685	11,306,546	11,202,619
Total assets	11,834,829	11,215,586	4,842,657	4,722,211	16,677,486	15,937,797
Liabilities:						
Long-term liabilities	8,952,869	7,811,543	1,518,782	1,508,606	10,471,651	9,320,149
Other liabilities	1,552,059	1,544,255	147,983	201,192	1,700,042	1,745,447
Total liabilities	10,504,928	9,355,798	1,666,765	1,709,798	12,171,693	11,065,596
Net assets:						
Invested in capital assets, net of related debt	2,794,481	3,326,245	1,560,267	1,476,136	4,354,748	4,802,381
Restricted	930,294	917,730	966,042	956,894	1,896,336	1,874,624
Unrestricted	(2,394,874)	(2,384,187)	649,583	579,383	(1,745,291)	(1,804,804)
Total net assets	$ 1,329,901	$ 1,859,788	$ 3,175,892	$ 3,012,413	$ 4,505,793	$ 4,872,201

Analysis of Net Assets

By far, the largest portion of the State's net assets ($4.4 billion or 96.6%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets ($1.9 billion or 42.1%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of negative $1.7 billion or negative 38.7% represents unrestricted net assets.

At June 30, 2012, the State is able to report positive balances in two of the categories of net assets for governmental activities and all three categories for business-type activities. The negative balance of unrestricted net assets for governmental activities is primarily attributed to the State's other postemployment benefit liability of $2.6 billion.

Changes in Net Assets

The State's net assets decreased by $366.4 million, or 7.5%, during the fiscal year ended June 30, 2012. Approximately 56.5% of the State's total revenues came from taxes, while 26.9% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 16.6% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, health, general government, and unemployment compensation.

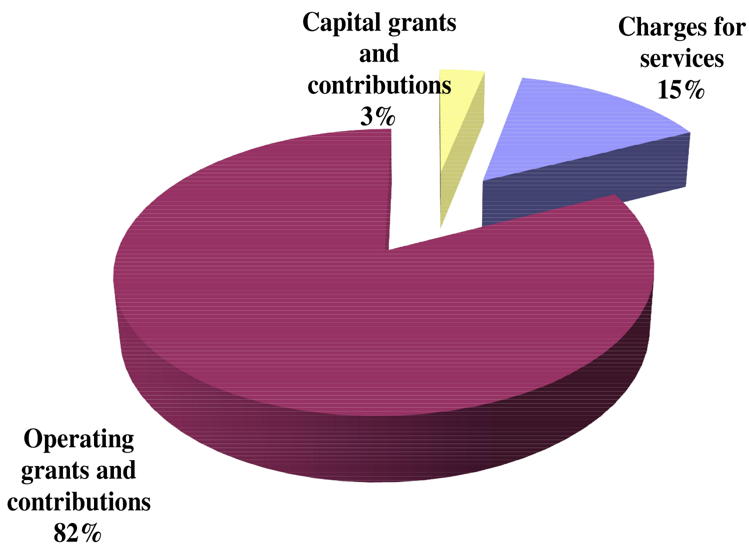
The following financial information was derived from the Government-Wide Statement of Activities and reflects how the State's net assets changed during the fiscal year.

Summary Schedule of Changes in Net Assets
For the Fiscal Years Ended June 30, 2012 and 2011
(Amounts in thousands)

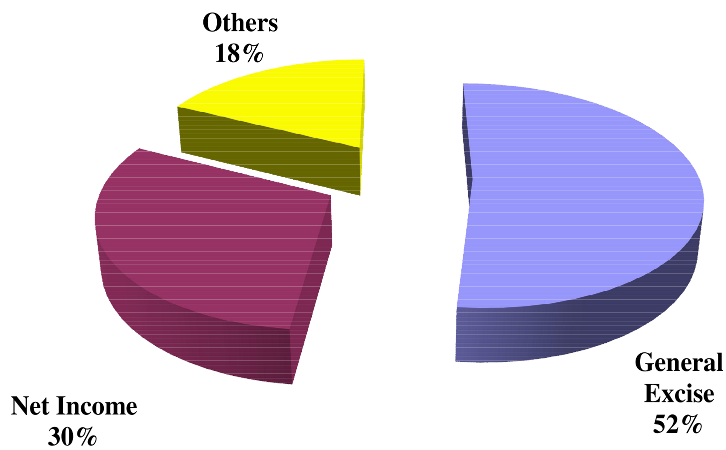
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	$ 421,145	$ 428,772	$ 1,149,559	$ 1,264,434	$ 1,570,704	$ 1,693,206
Operating grants and contributions	2,370,437	2,837,464	-	-	2,370,437	2,837,464
Capital grants and contributions	97,322	132,825	85,899	75,324	183,221	208,149
General revenues:						
Taxes	5,358,622	4,774,934	-	-	5,358,622	4,774,934
Interest and investment income	5,347	55,852	4,164	33,587	9,511	89,439
Total revenues	8,252,873	8,229,847	1,239,622	1,373,345	9,492,495	9,603,192
Expenses:						
General government	552,788	535,434	-	-	552,788	535,434
Public safety	502,002	471,459	-	-	502,002	471,459
Highways	516,924	450,548	-	-	516,924	450,548
Conservation of natural resources	96,349	89,021	-	-	96,349	89,021
Health	773,288	816,525	-	-	773,288	816,525
Welfare	2,464,582	2,553,829	-	-	2,464,582	2,553,829
Lower education	2,598,444	2,545,980	-	-	2,598,444	2,545,980
Higher education	672,716	707,381	-	-	672,716	707,381
Other education	16,753	14,018	-	-	16,753	14,018
Culture and recreation	111,628	108,697	-	-	111,628	108,697
Urban redevelopment and housing	23,888	66,144	-	-	23,888	66,144
Economic development and assistance	209,460	238,315	-	-	209,460	238,315
Interest expense	243,938	239,836	-	-	243,938	239,836
Airports	-	-	353,541	354,368	353,541	354,368
Harbors	-	-	84,826	80,355	84,826	80,355
Unemployment compensation	-	-	468,610	561,548	468,610	561,548
Nonmajor proprietary fund	-	-	169,166	250,346	169,166	250,346
Total expenses	8,782,760	8,837,187	1,076,143	1,246,617	9,858,903	10,083,804
Change in net assets	(529,887)	(607,340)	163,479	126,728	(366,408)	(480,612)
Net assets – beginning of year	1,859,788	2,467,128	3,012,413	2,885,685	4,872,201	5,352,813
Net assets – end of year	$ 1,329,901	$ 1,859,788	$ 3,175,892	$ 3,012,413	$ 4,505,793	$ 4,872,201

The following charts depict revenues of the governmental activities for the fiscal year:

Program Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2012



Tax Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2012



Analysis of Changes in Net Assets

The State's net assets decreased by $366.4 million during the current fiscal year. This is explained in the governmental and business-type activities discussion, and is primarily due to decrease in net assets of governmental activities of $529.9 million offset by increases in net assets of Unemployment Compensation Fund of $66.0 million, Airports of $41.6 million, Harbors of $38.8 million, and Nonmajor Proprietary Funds of $17.0 million.

Governmental Activities

Governmental activities decreased the State's net assets by $529.9 million. The elements of this decrease are reflected below:

	Governmental Activities (Amounts in thousands)	
	2012	**2011**
General revenues:		
Taxes	$ 5,358,622	$ 4,774,934
Interest and investment income and other	5,347	55,852
Total general revenues	5,363,969	4,830,786
Expenses, net of program revenues:		
General government	38,688	(239,420)
Public safety	463,945	440,026
Highways	351,757	260,142
Conservation of natural resources	36,699	22,043
Health	573,125	604,013
Welfare	1,003,240	829,081
Lower education	2,216,887	2,241,881
Higher education	672,716	707,381
Other education	16,753	14,018
Culture and recreation	108,859	106,539
Urban redevelopment and housing	(9,402)	17,664
Economic development and assistance	176,651	194,922
Interest expense	243,938	239,836
Total governmental activities expenses, net of program revenues	5,893,856	5,438,126
Decrease in governmental activities net assets	$ (529,887)	$ (607,340)

Tax revenues increased by $583.7 million, or 12.2%, from the previous fiscal year. The increase was primarily due to increases in general excise taxes of $266.7 million, in individual and corporate income taxes of $155.5 million, and in transient accommodations taxes of $77.7 million.

Interest and investment income decreased by $50.5 million from the previous year. The decrease is primarily due to the decrease in the fair market value of the student loan auction rate securities, which decreased $4.7 million in fiscal year 2012, compared to increasing $43.2 million in fiscal year 2011.

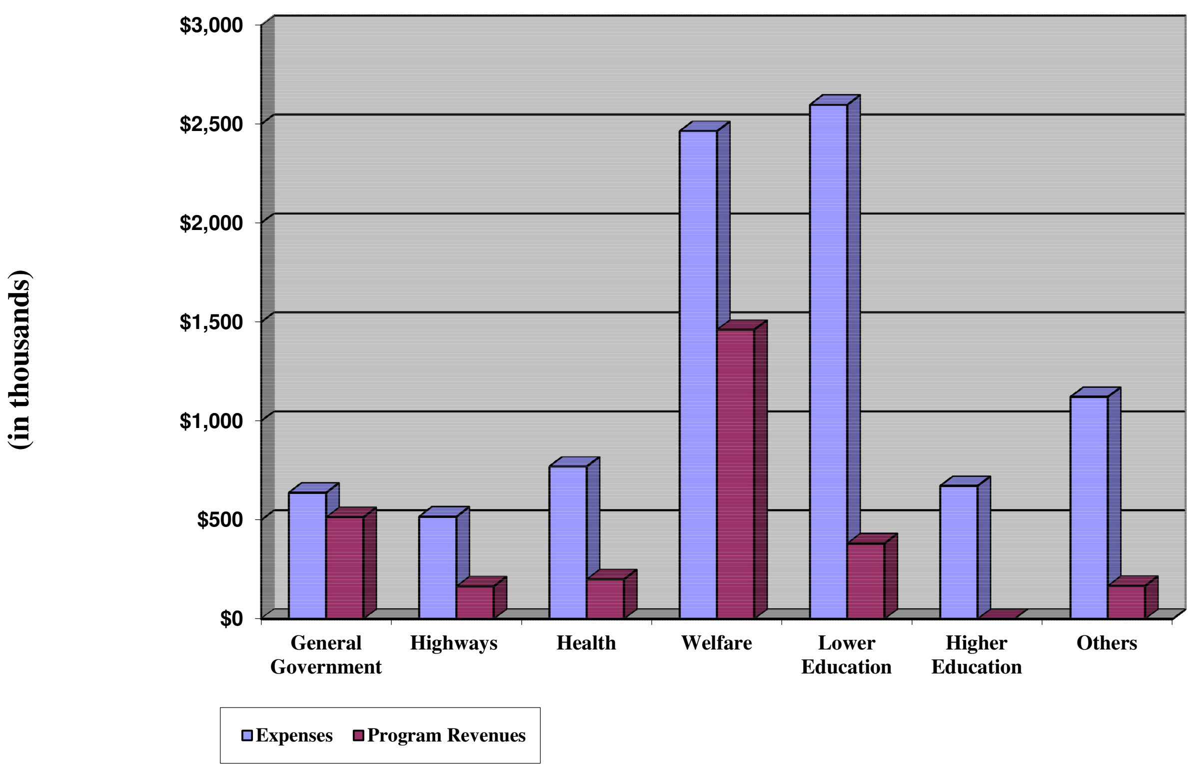
General government net expenses increased $278.1 million, or 116.2%, from the previous fiscal year. The increase is primarily attributed to a decrease of $92.5 million in federal stimulus funds received for educational programs and the $111 million cash transfer from the Hawaii Hurricane Relief fund in fiscal 2011.

Highway net expense increased by $91.6 million or 35.2% from the previous year due mainly to increase spending on highway repairs and maintenance.

Welfare net expenses increased $174.2 million or 21.0%. This change is primarily due to increased general funds appropriated for the medical assistance programs and general support programs of $190.7 million and $36.1 million respectively.

A comparison of the cost of services by function of the State's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State:

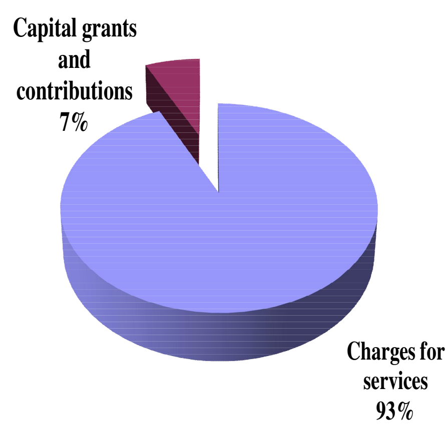
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ended June 30, 2012



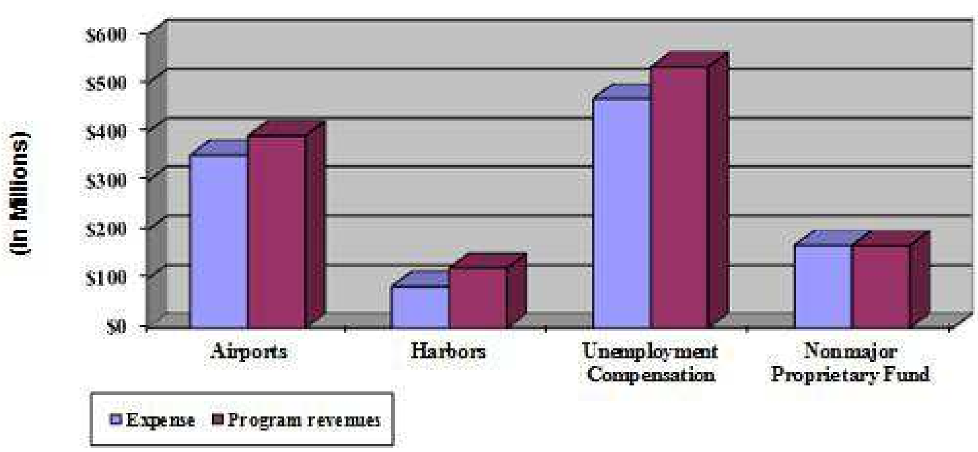
Business-Type Activities

The following charts depict revenues and expenses of the business-type activities for the fiscal year:

Program Revenues by Source – Business-Type Activities
Fiscal Year Ended June 30, 2012



Expenses and Program Revenues – Business-Type Activities
Fiscal Year Ended June 30, 2012



Business-type activities increased the State's net assets by $163.5 million in fiscal 2012, compared to an increase of $126.7 million in fiscal 2011. Key elements of this increase are as follows:

- Airport's net assets increased $41.6 million compared to an increase of $87.9 million in the prior fiscal year. Charges for current services decreased by $44.2 million primarily due to a temporary one year suspension in rental car customer facility charges. Interest income decreased by $18.6 million due to a $1.4 million decrease in the fair market value of investments in the State's treasury investment pool realized in fiscal year 2012 as compared with a $13.1 million increase in fiscal year 2011. Expenses decreased by $0.8 million.

- Harbor's net assets increased $38.8 million in fiscal 2012 compared to an increase of $20.9 million in fiscal 2011. Charges for current services increased by $18.0 million offset by an increase in expenses of $4.5 million.

- The Unemployment Compensation Fund's net assets increased $66.0 million compared to a decrease of $25.9 million in the prior fiscal year. The change was primarily due to a decrease in unemployment benefits paid of $92.9 million.

- Nonmajor Proprietary Fund's net assets increased $17.0 million in fiscal 2012 compared to an increase of $43.9 million in fiscal 2011. The change was primarily due to a decrease of $15.0 million in capital contributions.

Key elements of the State's business-type activities for the fiscal years ended June 30, 2012 and 2011 are as follows:

Business-Type Activities
(Amounts in thousands)

	Program Revenues									
	Charges for Services		Operating/Capital Grants and Contributions		Total		Expenses		Program Revenues Net of Expenses	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Airports	$ 343,279	$ 387,484	$ 49,375	$ 33,695	$ 392,654	$ 421,179	$ 353,541	$ 354,368	$ 39,113	$ 66,811
Harbors	103,876	85,920	19,357	9,426	123,233	95,346	84,826	80,355	38,407	14,991
Unemployment Compensation	533,963	535,243	-	-	533,963	535,243	468,610	561,548	65,353	(26,305)
Nonmajor Proprietary Funds	168,441	255,787	17,167	32,203	185,608	287,990	169,166	250,346	16,442	37,644
Total	$ 1,149,559	$ 1,264,434	$ 85,899	$ 75,324	$ 1,235,458	$ 1,339,758	$ 1,076,143	$ 1,246,617	$ 159,315	$ 93,141

Financial Analysis of the State's Individual Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In fiscal 2011, the State implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement which applies to governmental funds, provides new fund balance classifications that comprise a hierarchy based primarily on the extend the State is bound to honor constraints on the specific purpose for which amounts can be spent. The previous reserved and unreserved classifications have been replaced with restricted, committed, and unassigned. Additional information on fund balance classifications is found in Note 1.

At the end of the fiscal year, the State's Governmental Funds reported combined ending fund balances of $1.4 billion. Of this amount, $109,000 is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional $518.4 million has been committed to specific purposes. An additional $769.2 million has been assigned to specific purposes by management. The unassigned or unrestricted fund balance was $162.1 million at fiscal year end. This amount includes a deficit of a negative unrestricted fund balance of $387.0 million in the Capital Projects Fund.

The General Fund is the chief operating fund of the State. At the end of the fiscal year, the total fund balance of the General Fund was $807.4 million compared to $557.0 million in fiscal 2011. This increase is mainly attributed to the increase in tax revenues. The fund balance of the State's Capital Projects Fund increased $379.7 million during the fiscal year. This deficit is the result of the State's policy of recording expenditures upon the allotment of general obligation bond appropriations expended by component units and incurring general obligation bond expenditures in excess of cash available. The deficit caused by the recording of expenditures when funds are allotted is $507.9 million and is reflected on the balance sheet as "Due to Component Units". The fund balance of the Med-Quest Special Fund and other Nonmajor Governmental Funds increased $12.8 million and $55.5 million, respectively.

Proprietary Funds

The State's Proprietary Funds provide the same type of information found in the Government-Wide financial statements, but in more detail. At the end of the current fiscal year, Airports had an increase in net assets of $41.6 million, Harbors had an increase in net assets of $38.8 million, the Unemployment Compensation Fund had an increase in net assets of $66.0 million, and the Nonmajor Proprietary Funds had an increase in net assets of $17.0 million. Other factors concerning the finances of Airports, Harbors, the Unemployment Compensation Fund, and the Nonmajor Proprietary Funds have already been addressed in the discussion of the State's business-type activities.

General Fund Budgetary Highlights

The General Fund revenues were $293.9 million, or 5.5%, more than the final budget. The increase was attributed to higher tax revenues of $154.7 million, which was comprised of increases in general excise taxes of $74.6 million, and individual net income tax of $84.6 million.

The difference between the final budget and actual expenditures on a budgetary basis was $172.9 million. General government reflected a positive variance of $97.9 million which was primarily due to lower than expected cost for retirement and health benefits of $39.1 million and $21.5 million respectively. Also contributing to the positive variance in general government was $15.1 million of appropriations made to the State Legislature that was carried over to the next fiscal year. Positive variances in health and welfare resulted from spending restrictions. As in previous fiscal years, the positive variance in lower education resulted when the Department of Education carried over $28.1 million of unencumbered appropriations into the next fiscal year. The Department of Education is allowed by statute to carry up to 5% of its unencumbered appropriations.

Capital Asset and Debt Administration

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounted to $11.3 billion (net of accumulated depreciation of $9.3 billion), an increase of $103.9 million from fiscal 2011. The increase is due to an increase in governmental activities assets of $405.8 million and in business-type assets of $157.9 million offset by increases in primary governmental activities and business-type activities accumulated depreciation of $365.3 million and $94.4 million, respectively. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2012, included the following:

- $154.8 million for various capital improvement projects and repairs and maintenance of public school facilities throughout the State.
- $28.9 million for Honolulu International Airport design and construction of support facilities.
- $34.5 million Taxiway improvements at Kahului Airport.
- $30.6 million for improvements to rental car facilities.
- $67.7 million for various capital improvement projects at airports, Statewide.
- $104.9 million for various highways projects throughout the State.
- $138.0 million various construction, maintenance and renovation projects at various University of Hawaii campuses.

- $25.9 million for various construction, maintenance and renovation projects at state community hospitals.

Additional information on the State's capital assets can be found in note 3 to the basic financial statements.

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of $7.3 billion. Of this amount, $5.5 billion comprises debt backed by the full faith and credit of the State and $1.8 billion (i.e., revenue bonds), is revenue bonded debt that is payable from and secured solely by the specified revenue sources. A breakdown of the State's total bonded debt is shown below:

Long-Term Debt
June 30, 2012 and 2011
(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
General obligation bonds	$ 5,475,348	$ 4,987,544	$ 34,611	$ 36,221	$ 5,509,959	$ 5,023,765
Revenue bonds	468,180	378,625	1,370,314	1,410,624	1,838,494	1,789,249
Total	$ 5,943,528	$ 5,366,169	$ 1,404,925	$ 1,446,845	$ 7,348,453	$ 6,813,014

The State's total long-term debt increased by $535.4 million, or 7.9%, during the current fiscal year. The increase resulted from issuance of General Obligation and Revenue Bonds offset by declining principal balances (see notes 4 and 5 to the basic financial statements).

As of June 30, 2012, the State's underlying general obligation bond ratings were Moody's Investors Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA) based on the credit of the State.

The State Constitution limits the amount of general obligation bonds that may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit. The legal debt margin at June 30, 2012 was $295 million.

Additional information on the State's long-term debt can be found in notes 4, 5 and 6 to the basic financial statements.

Other Post-Employment Benefits (OPEB)

The State implemented provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for fiscal year ended June 30, 2008.

The latest actuarial valuation studies were completed as of July 1, 2011 for the Employer-Union Health Benefits Trust Fund (EUTF) and the University of Hawaii. These studies determined the State's combined unfunded actuarial accrued liability to be approximately $13.6 billion. The State's combined annual OPEB cost for fiscal

2012 was $992.7 million and its OPEB contributions were $271.8 million, resulting in an increase in the net OPEB obligation of $720.9 million. The total net OPEB obligation balance at fiscal year end increased to $3.2 billion. The State expects to continue to fund its OPEB costs on a pay-as-you-go basis for the near term while it analyzes alternative strategies that could be implemented to manage the high cost of providing retiree health benefits.

Economic Factors and Next Year's Budget

The statewide seasonally adjusted unemployment rate for September 2012 was 5.7% while the seasonally adjusted national unemployment rates was 7.8%. One year ago, the State's seasonally adjusted unemployment rate stood at 6.8% while the seasonally adjusted national unemployment rate was 9.0%.

The Council of Revenues in January 2013 increased the State's General Fund tax revenue growth rate for fiscal year 2013 and 2014 from 4.9% to 5.1% and from 3.9% to 6.8%, respectively.

Cumulative general fund tax revenues for the first five months of fiscal 2013 was $2.2 billion, an increase of $238.7 million from the same period last fiscal year. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, increased 11.8%.

Because of the lower estimated general fund revenue growth in fiscal year 2013 projected during the budget cycle, the Governor has imposed a 5% spending restriction on discretionary operating expenses of general funds for all departments and agencies of the Executive Branch.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, Department of Accounting and General Services, P.O. Box 119, Honolulu, Hawaii 96810-0119. General information about the State can be found at the State's website, http://www.hawaii.gov.

BASIC FINANCIAL STATEMENTS

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	Primary Government			
ASSETS	Governmental Activities	Business-Type Activities	Total	Component Units
CASH AND CASH EQUIVALENTS	$ 1,000,899	$ 864,569	$ 1,865,468	$ 369,023
RECEIVABLES:				
Taxes	441,549	90,169	531,718	-
Accounts and accrued interest — net	-	30,359	30,359	185,125
Notes, loans, mortgages, and contributions — net	78,854	-	78,854	25,241
Federal government	48,398	11,524	59,922	3,549
Premium	-	32,788	32,788	-
Other — net	43,330	4,492	47,822	19,622
Total receivables	612,131	169,332	781,463	233,537
INTERNAL BALANCES	1,597	(1,597)	-	-
DUE FROM COMPONENT UNITS	323,871	-	323,871	-
DUE FROM PRIMARY GOVERNMENT	-	-	-	521,499
INVESTMENTS	941,401	-	941,401	430,882
INVENTORIES:				
Developments in progress and dwelling units	-	-	-	24,099
Materials and supplies	-	458	458	32,665
Total inventories	-	458	458	56,764
RESTRICTED ASSETS	-	892,601	892,601	282,657
OTHER ASSETS:				
Prepaid expenses	5,844	17,553	23,397	15,757
Bond issue and deferred costs — net	100,677	8,031	108,708	1,498
Note receivable	-	398,644	398,644	481,386
Investments	-	-	-	556,783
Other	15,060	19,869	34,929	26,518
Total other assets	121,581	444,097	565,678	1,081,942
CAPITAL ASSETS:				
Land and land improvements	2,207,145	1,760,644	3,967,789	478,958
Infrastructure	8,915,933	-	8,915,933	151,840
Construction in progress	707,883	394,123	1,102,006	616,412
Buildings, improvements, and equipment	4,305,301	2,329,681	6,634,982	3,641,751
Accumulated depreciation	(7,302,913)	(2,011,251)	(9,314,164)	(1,949,885)
Total capital assets — net	8,833,349	2,473,197	11,306,546	2,939,076
TOTAL ASSETS	$ 11,834,829	$ 4,842,657	$ 16,677,486	$ 5,915,380

See accompanying notes to basic financial statements

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	Primary Government			
LIABILITIES	**Governmental Activities**	**Business-Type Activities**	**Total**	**Component Units**
LIABILITIES:				
Vouchers and contracts payable	$ 301,056	$ 29,445	$ 330,501	$ 206,306
Other accrued liabilities	267,079	74,053	341,132	113,284
Due to Component Units	521,499	-	521,499	-
Due to Primary Government	-	-	-	323,871
Due to federal government	22,014	-	22,014	-
Deferred revenue	-	5,511	5,511	60,117
Estimated future costs of land sold	-	-	-	34,926
Unamortized bond premium	365,627	-	365,627	-
Premiums payable	-	38,974	38,974	-
Other	74,784	-	74,784	5,542
Long-term liabilities:				
Due within one year:				
Payable from restricted assets — revenue bonds payable — net	-	40,292	40,292	-
Prepaid airport use charge fund	-	14,890	14,890	-
General obligation (GO) bonds payable	372,352	1,678	374,030	-
Notes, mortgages, and installment contracts payable	-	-	-	9,272
Accrued vacation and retirement benefits payable	71,417	3,706	75,123	43,690
Revenue bonds payable — net	27,030	-	27,030	19,222
Reserve for losses and loss adjustment costs	34,493	1,116	35,609	8,337
Capital lease obligations	5,461	-	5,461	7,257
Due in more than one year:				
Prepaid airport use charge fund	-	33,227	33,227	-
GO bonds payable	5,102,996	32,933	5,135,929	-
Notes, mortgages, and installment contracts payable	-	-	-	30,928
Accrued vacation and retirement benefits payable	141,366	8,610	149,976	76,583
Revenue bonds payable — net	441,150	1,330,022	1,771,172	1,050,232
Reserve for losses and loss adjustment costs	135,407	3,787	139,194	21,442
Capital lease obligations	89,879	-	89,879	24,929
Premium on bonds payable	-	-	-	5,625
Other postemployment benefit liability	2,530,970	47,568	2,578,538	624,411
Other	348	953	1,301	68,606
TOTAL LIABILITIES	10,504,928	1,666,765	12,171,693	2,734,580
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	2,794,481	1,560,267	4,354,748	2,073,849
RESTRICTED FOR:				
Capital maintenance projects	138,760	-	138,760	-
Health and welfare	112,966	-	112,966	-
Natural resources	106,018	-	106,018	-
Hawaiian programs	266,788	-	266,788	-
Budget stabilization	24,197	-	24,197	-
Other purposes	281,501	-	281,501	-
Bond requirements and other	64	966,042	966,106	1,023,041
UNRESTRICTED	(2,394,874)	649,583	(1,745,291)	83,910
TOTAL NET ASSETS	$ 1,329,901	$ 3,175,892	$ 4,505,793	$3,180,800

See accompanying notes to basic financial statements.

STATE OF HAWAII

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
PRIMARY GOVERNMENT:								
Governmental activities:								
General government	$ 552,788	$ 266,878	$ 247,222	$ -	$ (38,688)	$ -	$ (38,688)	
Public safety	502,002	37,974	83	-	(463,945)	-	(463,945)	
Highways	516,924	6,489	61,356	97,322	(351,757)	-	(351,757)	
Conservation of natural resources	96,349	26,263	33,387	-	(36,699)	-	(36,699)	
Health	773,288	32,339	167,824	-	(573,125)	-	(573,125)	
Welfare	2,464,582	71	1,461,271	-	(1,003,240)	-	(1,003,240)	
Lower education	2,598,444	42,523	339,034	-	(2,216,887)	-	(2,216,887)	
Higher education	672,716	-	-	-	(672,716)	-	(672,716)	
Other education	16,753	-	-	-	(16,753)	-	(16,753)	
Culture and recreation	111,628	-	2,769	-	(108,859)	-	(108,859)	
Urban redevelopment and housing	23,888	3,509	29,781	-	9,402	-	9,402	
Economic development and assistance	209,460	5,099	27,710	-	(176,651)	-	(176,651)	
Interest expense	243,938	-	-	-	(243,938)	-	(243,938)	
Total governmental activities	8,782,760	421,145	2,370,437	97,322	(5,893,856)	-	(5,893,856)	
Business-type activities:								
Airports	353,541	343,279	-	49,375	-	39,113	39,113	
Harbors	84,826	103,876	-	19,357	-	38,407	38,407	
Unemployment compensation	468,610	533,963	-	-	-	65,353	65,353	
Nonmajor proprietary funds	169,166	168,441	-	17,167	-	16,442	16,442	
Total business-type activities	1,076,143	1,149,559	-	85,899	-	159,315	159,315	
TOTAL PRIMARY GOVERNMENT	$9,858,903	$1,570,704	$2,370,437	$ 183,221	(5,893,856)	159,315	(5,734,541)	
COMPONENT UNITS:								
University of Hawaii	$1,616,105	$ 377,077	$ 481,847	$ -				$ (757,181)
Hawaii Housing Finance and Development Corporation	57,856	41,829	25,304	-				9,277
Hawaii Public Housing Authority	123,513	18,435	74,106	11,030				(19,942)
Hawaii Health Systems Corporation	668,136	524,674	1,614	28,184				(113,664)
Hawaii Tourism Authority	108,727	9,607	-	-				(99,120)
Hawaii Community Development Authority	13,682	7,958	-	-				(5,724)
Hawaii Hurricane Relief Fund	3	-	-	-				(3)
Total component units	$2,588,022	$ 979,580	$ 582,871	$ 39,214				(986,357)
GENERAL REVENUES:								
Taxes:								
General excise tax					2,774,636	-	2,774,636	-
Net income tax — corporations and individuals					1,633,085	-	1,633,085	-
Public service companies tax					150,528	-	150,528	-
Transient accommodations tax					138,529	-	138,529	-
Tobacco and liquor taxes					170,824	-	170,824	-
Liquid fuel tax					88,842	-	88,842	-
Tax on premiums of insurance companies					119,472	-	119,472	-
Vehicle weight and registration tax					98,187	-	98,187	-
Rental motor/tour vehicle surcharge tax					106,417	-	106,417	-
Franchise tax					7,229	-	7,229	-
Other tax					70,873	-	70,873	-
Interest and investment income					5,347	4,164	9,511	1,975
Payments from the State — net					-	-	-	911,505
Other revenue					-	-	-	49,732
Total general revenues					5,363,969	4,164	5,368,133	963,212
CHANGE IN NET ASSETS					(529,887)	163,479	(366,408)	(23,145)
NET ASSETS — Beginning of year					1,859,788	3,012,413	4,872,201	3,203,945
NET ASSETS — End of year					$ 1,329,901	$ 3,175,892	$ 4,505,793	$3,180,800

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
CASH AND CASH EQUIVALENTS	$ 238,623	$ 222,355	$ 6,921	$ 533,000	$ 1,000,899
RECEIVABLES:					
Taxes	441,549	-	-	-	441,549
Notes and loans — net	2,187	-	-	76,667	78,854
Federal government	-	-	48,398	-	48,398
Other	14,047	-	-	1,384	15,431
DUE FROM OTHER FUNDS	133,005	-	-	64	133,069
DUE FROM PROPRIETARY FUNDS	-	1,597	-	-	1,597
DUE FROM COMPONENT UNITS	29,300	-	-	-	29,300
INVESTMENTS	286,913	56,839	8,458	589,191	941,401
OTHER ASSETS	15,060	-	-	-	15,060
TOTAL ASSETS	$ 1,160,684	$ 280,791	$ 63,777	$ 1,200,306	$ 2,705,558
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Vouchers and contracts payable	$ 115,379	$ 69,968	$ 31,944	$ 83,765	$ 301,056
Other accrued liabilities	213,900	(30)	-	53,543	267,413
Due to federal government	-	-	-	22,014	22,014
Due to other funds	64	89,900	28,400	14,705	133,069
Due to Component Units	1,563	507,943	-	-	509,506
Deferred revenue	22,340	-	-	-	22,340
Payable from restricted assets — matured bonds and interest payable	-	-	-	348	348
Total liabilities	353,246	667,781	60,344	174,375	1,255,746
FUND BALANCES:					
Restricted	-	-	-	109	109
Committed	-	-	-	518,374	518,374
Assigned	236,779	-	3,433	529,033	769,245
Unassigned	570,659	(386,990)	-	(21,585)	162,084
Total fund balances	807,438	(386,990)	3,433	1,025,931	1,449,812
TOTAL	$ 1,160,684	$ 280,791	$ 63,777	$ 1,200,306	$ 2,705,558

See accompanying notes to basic financial statements.

STATE OF HAWAII

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

TOTAL FUND BALANCE — Governmental Funds	$ 1,449,812
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:	
Land and land improvements	2,207,145
Infrastructure	8,915,933
Construction in progress	707,883
Buildings, improvements, and equipment	4,305,301
Accumulated depreciation	(7,302,913)
	8,833,349
Accrued interest and other payables are not recognized in Governmental Funds	(440,410)
Other assets are not available to pay for current-period expenditures and are deferred, or not recognized, in governmental funds, such as deferred revenue and settlement receivables	157,093
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds payable	(5,475,348)
Accrued vacation payable	(212,783)
Revenue bonds payable	(468,180)
Reserve for losses and loss adjustment costs	(169,900)
Other postemployment benefit liability	(2,530,970)
Long-term transactions with Component Units	282,578
Capital lease obligations	(95,340)
	(8,669,943)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 1,329,901

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
General excise tax	$ 2,774,636	$ -	$ -	$ -	$ 2,774,636
Net income tax — corporations and individuals	1,633,412	-	-	-	1,633,412
Public service companies tax	150,528	-	-	-	150,528
Transient accommodations tax	137,529	-	-	1,000	138,529
Tobacco and liquor taxes	151,707	-	-	19,117	170,824
Liquid fuel tax	-	-	-	88,842	88,842
Tax on premiums of insurance companies	117,617	-	-	1,855	119,472
Vehicle weight and registration tax	-	-	-	98,187	98,187
Rental motor/tour vehicle surcharge tax	61,430	-	-	44,987	106,417
Franchise tax	5,229	-	-	2,000	7,229
Other	47,799	-	-	23,074	70,873
Total taxes	5,079,887	-	-	279,062	5,358,949
Interest and investment income (loss)	(1,691)	-	-	7,038	5,347
Charges for current services	121,362	-	-	216,403	337,765
Intergovernmental	13,520	-	819,503	1,405,616	2,238,639
Rentals	360	-	-	25,061	25,421
Fines, forfeitures, and penalties	23,409	-	-	11,674	35,083
Licenses and fees	6,003	-	-	40,387	46,390
Revenues from private sources	25,297	-	-	39,788	65,085
Other	35,464	-	15,704	100,923	152,091
Total revenues	5,303,611	-	835,207	2,125,952	8,264,770
EXPENDITURES:					
Current:					
General government	369,664	63,162	-	54,770	487,596
Public safety	316,863	11,384	-	126,710	454,957
Highways	-	171,009	-	243,620	414,629
Conservation of natural resources	26,290	10,336	-	61,802	98,428
Health	484,543	40,884	-	204,414	729,841
Welfare	1,019,919	1,046	801,551	621,420	2,443,936
Lower education	1,776,825	149,574	-	403,731	2,330,130
Higher education	535,457	137,259	-	-	672,716
Other education	5,544	-	-	11,209	16,753
Culture and recreation	39,144	27,440	-	43,390	109,974
Urban redevelopment and housing	108	1,264	-	47,112	48,484
Economic development and assistance	24,141	12,913	-	110,391	147,445
Housing	20,021	26,112	-	-	46,133
Other	6,229	-	-	5,879	12,108
Debt service	-	-	-	587,760	587,760
Total expenditures	4,624,748	652,383	801,551	2,522,208	8,600,890
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	678,863	(652,383)	33,656	(396,256)	(336,120)
OTHER FINANCING SOURCES (USES):					
Issuance of GO and refunding GO bonds - par	-	800,000	-	486,230	1,286,230
Issuance of of GO and refunding GO bonds - premium	109,085	-	-	74,009	183,094
Issuance of revenue and refunding revenue bonds - par	-	112,270	-	5,095	117,365
Issuance of revenue and refunding revenue bonds - premium	-	13,152	-	467	13,619
Payment to refunded bond escrow agent	-	-	-	(565,801)	(565,801)
Transfers in	53,497	138,937	9,465	748,818	950,717
Transfers out	(591,053)	(32,301)	(30,275)	(297,088)	(950,717)
Total other financing (uses) sources	(428,471)	1,032,058	(20,810)	451,730	1,034,507
NET CHANGE IN FUND BALANCES	250,392	379,675	12,846	55,474	698,387
FUND BALANCES — Beginning of year	557,046	(766,665)	(9,413)	970,457	751,425
FUND BALANCES — End of year	$ 807,438	$ (386,990)	$ 3,433	$ 1,025,931	$ 1,449,812

See accompanying notes to basic financial statements.

STATE OF HAWAII

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2012

(Amounts in thousands)

TOTAL NET CHANGE IN FUND BALANCES — Governmental Funds	$ 698,387
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:	
Capital outlays are reported as expenditures in Governmental Funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay — net of disposals	405,760
Depreciation expense	(375,388)
Excess of capital outlay over depreciation expense	30,372
Debt proceeds provide current financial resources to Governmental Funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, this is the amount of proceeds received from general obligation bonds issued.	(1,600,308)
Repayment of long-term debt is reported as an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:	
Bond principal retirement	826,236
Capital lease payments	5,180
Total long-term debt repayment	831,416
Revenue timing differences result in greater revenue in the Government-Wide financial statements.	(10,902)
Bond issue and deferred costs in Governmental Funds - reported in the statement of net assets - net of amortization.	88,495
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds:	
Change in postemployment liability	(555,561)
Change in accrued vacation payable	2,816
Change in HHFDC long-term liability	1,778
Change in reserve for losses and loss adjustment costs	(16,380)
Total	(567,347)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (529,887)

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

ASSETS	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
CURRENT ASSETS:					
Cash and cash equivalents	$ 549,279	$ 115,012	$ 47,486	$ 152,792	$ 864,569
Restricted assets — cash and short-term investments	58,778	33,338	-	-	92,116
Receivables:					
Taxes	-	-	90,169	-	90,169
Accounts and accrued interest (net of allowance for doubtful accounts of $4,221)	20,612	8,881	-	866	30,359
Promissory note receivable (net of allowance for doubtful accounts of $5,060)	5	-	-	34,888	34,893
Federal government	5,401	5,883	-	240	11,524
Premiums	-	-	-	32,788	32,788
Other	389	912	-	3,191	4,492
Materials and supplies inventory	213	245	-	-	458
Prepaid expenses and other assets	-	843	-	16,710	17,553
Total current assets	634,677	165,114	137,655	241,475	1,178,921
NONCURRENT ASSETS:					
Capital assets:					
Land and land improvements	1,251,626	509,018	-	-	1,760,644
Construction in progress	365,910	28,213	-	-	394,123
Buildings and improvements	1,654,756	419,967	-	-	2,074,723
Equipment	220,129	19,754	-	15,075	254,958
	3,492,421	976,952	-	15,075	4,484,448
Less accumulated depreciation	(1,738,637)	(264,027)	-	(8,587)	(2,011,251)
Net capital assets	1,753,784	712,925	-	6,488	2,473,197
Investments	96,893	-	-	-	96,893
Bond issue costs — net	4,409	3,622	-	-	8,031
Promissory note receivable	-	-	-	363,751	363,751
Restricted assets — net direct financing leases	31,212	-	-	-	31,212
Restricted assets — cash and cash equivalents	421,913	250,467	-	-	672,380
Other	3,995	414	-	15,460	19,869
Total noncurrent assets	2,312,206	967,428	-	385,699	3,665,333
TOTAL ASSETS	$ 2,946,883	$ 1,132,542	$ 137,655	$ 627,174	$ 4,844,254

(Continued)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
LIABILITIES					
CURRENT LIABILITIES:					
Vouchers and contracts payable	$ 21,593	$ 6,645	$ 505	$ 702	$ 29,445
Payable from restricted assets — contracts payable, accrued interest, and other	35,182	19,174	-	-	54,356
Other accrued liabilities	10,578	-	-	1,633	12,211
Due to Primary Government	-	1,597	-	-	1,597
Benefit claims payable	-	-	-	7,486	7,486
Prepaid airport use charge fund	14,890	-	-	-	14,890
Deferred revenue	5,511	-	-	-	5,511
General obligation bonds payable, current portion	-	1,678	-	-	1,678
Reserve for losses and loss adjustment costs	923	193	-	-	1,116
Accrued vacation, current portion	2,964	572	-	170	3,706
Payable from restricted assets — revenue bonds payable	28,450	11,842	-	-	40,292
Premiums payable	-	-	-	38,974	38,974
Total current liabilities	120,091	41,701	505	48,965	211,262
NONCURRENT LIABILITIES:					
General obligation bonds payable	-	32,933	-	-	32,933
Accrued vacation	6,498	1,613	-	499	8,610
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding)	969,431	360,591	-	-	1,330,022
Reserve for losses and loss adjustment costs	3,077	710	-	-	3,787
Other postemployment benefit liability	37,063	8,279	-	2,226	47,568
Prepaid airport use charge fund	33,227	-	-	-	33,227
Other	953	-	-	-	953
Total long-term liabilities	1,050,249	404,126	-	2,725	1,457,100
TOTAL LIABILITIES	1,170,340	445,827	505	51,690	1,668,362
NET ASSETS					
INVESTED IN CAPITAL ASSETS — Net of related debt	1,039,369	514,515	-	6,488	1,560,372
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	314,492	84,359	-	567,193	966,044
UNRESTRICTED	422,682	87,841	137,150	1,803	649,476
TOTAL NET ASSETS	$ 1,776,543	$ 686,715	$ 137,150	$ 575,484	$ 3,175,892

See accompanying notes to basic financial statements. (Concluded)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES:					
Concession fees	$ 143,573	$ -	$ -	$ -	$ 143,573
Unemployment compensation	-	-	533,963	-	533,963
Aviation fuel tax	4,338	-	-	-	4,338
Airport use charges	59,640	-	-	-	59,640
Rentals	102,132	28,979	-	-	131,111
Services and others	421	71,951	-	-	72,372
Administrative fees	-	-	-	10,053	10,053
Premium revenue — self insurance	-	-	-	152,435	152,435
Other	1,991	2,946	-	5,953	10,890
Total operating revenues	312,095	103,876	533,963	168,441	1,118,375
OPERATING EXPENSES:					
Personnel services	124,353	14,453	-	5,003	143,809
Depreciation and amortization	90,755	20,561	-	1,150	112,466
Repairs and maintenance	30,845	1,795	-	84	32,724
Airports operations	53,473	-	-	-	53,473
Harbors operations	-	17,651	-	-	17,651
Fireboat operations	-	1,968	-	-	1,968
General administration	18,891	7,303	-	4,175	30,369
Unemployment compensation	-	-	468,610	-	468,610
Claims	-	-	-	150,489	150,489
Other	119	-	-	951	1,070
Total operating expenses	318,436	63,731	468,610	161,852	1,012,629
Operating (loss) income	(6,341)	40,145	65,353	6,589	105,746
NONOPERATING REVENUES (EXPENSES):					
Interest and investment income	2,505	393	694	572	4,164
Interest expense	(33,215)	(21,092)	-	-	(54,307)
Federal grants	3,315	-	-	-	3,315
Loss on disposal of capital assets	(1,890)	(3)	-	-	(1,893)
Passenger facility charges	31,731	-	-	-	31,731
Other	(547)	-	-	(7,314)	(7,861)
Total nonoperating revenues (expenses)	1,899	(20,702)	694	(6,742)	(24,851)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(4,442)	19,443	66,047	(153)	80,895
CAPITAL CONTRIBUTIONS	46,060	19,357	-	17,167	82,584
CHANGE IN NET ASSETS	41,618	38,800	66,047	17,014	163,479
NET ASSETS - Beginning of year	1,734,925	647,915	71,103	558,470	3,012,413
NET ASSETS — End of year	$ 1,776,543	$ 686,715	$ 137,150	$ 575,484	$ 3,175,892

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	$ 356,838	$ 102,729	$ -	$ -	$ 459,567
Cash received from taxes	-	-	319,553	-	319,553
Cash received from employer and employees for premiums and benefits	-	-	-	500,858	500,858
Cash paid to suppliers	(147,826)	(31,263)	-	(4,408)	(183,497)
Cash paid to employees	(64,977)	(12,673)	-	(4,386)	(82,036)
Cash paid for unemployment compensation	-	-	(468,881)	-	(468,881)
Cash paid for premiums and benefits payable	-	-	-	(510,786)	(510,786)
Reserves returned by insurance carriers	-	-	-	(2,261)	(2,261)
Interest income from notes receivable	-	-	-	3,179	3,179
Administrative loan fees	-	-	-	4,248	4,248
Principal repayments on notes receivable	-	-	-	32,690	32,690
Disbursement of note receivable proceeds	-	-	-	(51,863)	(51,863)
Other cash receipts	-	-	210,954	-	210,954
Net cash provided by (used in) operating activities	144,035	58,793	61,626	(32,729)	231,725
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
State capital contributions	-	-	-	5,872	5,872
Proceeds from federal operating grants	4,878	-	-	30,462	35,340
Disbursements of federal operating grants	-	-	-	(8,029)	(8,029)
Other	-	-	(18,337)	5,975	(12,362)
Net cash provided by (used in) noncapital financing activities	4,878	-	(18,337)	34,280	20,821
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Payments to Airports Division	-	(8,191)	-	-	(8,191)
Acquisition and construction of capital assets	(111,553)	(39,116)	-	(87)	(150,756)
Repayment of general obligation and revenue bonds principal	(25,370)	(9,424)	-	-	(34,794)
Proceeds from loan to primary government	-	186,193	-	-	186,193
Payments to refund airports system revenue bonds	(7,534)	-	-	-	(7,534)
Interest paid on bonds	(45,446)	(21,707)	-	-	(67,153)
Other interest paid	-	(1,483)	-	-	(1,483)
Proceeds from passenger facility charges program	31,037	-	-	-	31,037
Proceeds from rental car customer facility charges program	5,582	-	-	-	5,582
Payments from rental car customer facility charges program	(6,256)	-	-	-	(6,256)
Payments from passenger facility charges program	(14,405)	-	-	-	(14,405)
Proceeds from federal, state, and capital grants	50,325	16,171	-	-	66,496
Net cash provided by (used in) capital and related financing activities	(123,620)	122,443	-	(87)	(1,264)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments	(193,786)	-	-	-	(193,786)
Proceeds from sales and maturities of investments	193,786	-	-	-	193,786
Interest from and change in fair value of investments	3,327	742	731	722	5,522
Net cash provided by investing activities	3,327	742	731	722	5,522
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,620	181,978	44,020	2,186	256,804
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — beginning of the year	1,001,350	216,839	3,466	150,606	1,372,261
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — end of year	$ 1,029,970	$ 398,817	$ 47,486	$ 152,792	$ 1,629,065

See accompanying notes to basic financial statements

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ (6,341)	$ 40,145	$ 65,353	$ 6,589	$ 105,746
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Provision for uncollectible accounts	-	393	-	-	393
Depreciation	90,755	20,423	-	1,150	112,328
Other amortization	-	138	-	-	138
Bad debt expense	(562)	-	-	-	(562)
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	39,526	-	-	-	39,526
Premium reserves held by insurance companies	-	-	-	(2,288)	(2,288)
Principal forgiveness of loans	-	-	-	(2,000)	(2,000)
Decrease (increase) in assets:					
Receivables	6,622	(1,734)	(3,455)	(17,485)	(16,052)
Inventory of materials and supplies	13	5	-	-	18
Deposits	-	-	-	(4,958)	(4,958)
Prepaid expenses	-	(18)	-	-	(18)
Increase (decrease) in liabilities:					
Vouchers and contracts payable	5,058	(2,584)	(272)	(110)	2,092
Other accrued liabilities	10,289	2,025	-	20,387	32,701
Prepaid airport use charge fund	(2,758)	-	-	-	(2,758)
Deferred revenue	1,433	-	-	-	1,433
Accrued interest on loans receivable	-	-	-	(34,014)	(34,014)
Net cash provided by (used in) operating activities	$ 144,035	$ 58,793	$ 61,626	$ (32,729)	$ 231,725

Supplemental Information

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:					
Amortization of bond discount, bond issue costs, bond premium, and deferred loss on refunding	$ (3,476)	$ (390)	$ -	$ -	$ (3,866)
Principal payments relating to special facility revenue bonds	835	-	-	-	835
Interest payments relating to special facility revenue bonds	1,930	-	-	-	1,930
Development capital assets from other sources	-	3,033	-	-	3,033
Payments to refund airport system revenue bonds	(321,286)	-	-	-	(321,286)
Proceeds from issuance of refunding airport systems revenue bonds	321,286	-	-	-	321,286

See accompanying notes to basic financial statements.

STATE OF HAWAII

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	Agency Funds
ASSETS	
CASH AND CASH EQUIVALENTS	$ 478,464
RECEIVABLES — taxes	33,444
INVESTMENTS	92,532
OTHER ASSETS - primarily due from individuals, businesses, and counties	94,547
TOTAL	$ 698,987
LIABILITIES AND NET ASSETS	
VOUCHERS PAYABLE	$ 58,621
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	640,366
TOTAL	$ 698,987

See accompanying notes to basic financial statements.

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STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

ASSETS	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
CASH AND CASH EQUIVALENTS	$ 55,567	$ 162,654	$ 66,942	$ 37,625
RECEIVABLES:				
Accounts and accrued interest (net of allowance for	79,657	14,353	346	90,019
doubtful accounts of $65,404)	-	-	-	-
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts)	16,275	8,966	-	-
Federal government	-	-	3,549	-
Other	-	2,678	308	12,344
DUE FROM PRIMARY GOVERNMENT	439	33,000	19,166	60,129
INVESTMENTS	392,779	815	-	7,212
INVENTORIES:				
Developments in progress and dwelling units	-	24,099	-	-
Materials and supplies	12,716	-	931	19,018
PREPAID EXPENSES AND OTHER ASSETS	10,842	354	2,029	-
	568,275	246,919	93,271	226,347
RESTRICTED ASSETS:				
Cash and cash equivalents	-	76,275	-	10,335
Investments	-	183,083	-	-
Deposits, funded reserves, and other	-	465	-	-
Total restricted assets	-	259,823	-	10,335
CAPITAL ASSETS:				
Land and land improvements	114,500	43,355	25,340	6,457
Infrastructure	107,526	-	-	-
Construction in progress	545,827	-	35,664	31,403
Buildings, improvements, and equipment	2,126,110	158,107	554,239	567,680
Less accumulated depreciation	(1,067,026)	(104,474)	(318,739)	(295,978)
Total capital assets — net	1,826,937	96,988	296,504	309,562
OTHER ASSETS:				
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts $7,265)	23,544	449,329	5,243	-
Due from Primary Government	395,390	11,991	-	-
Investments	526,663	7,149	-	-
Other assets	23,874	1,498	594	1,676
Total other assets	969,471	469,967	5,837	1,676
TOTAL ASSETS	$ 3,364,683	$ 1,073,697	$ 395,612	$ 547,920

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 10,611	$ 34,828	$ 796	$ 369,023
-	646	104	185,125
-	-	-	25,241
-	-	-	3,549
4,292	-	-	19,622
-	1,384	-	114,118
9,497	-	20,579	430,882
-	-	-	24,099
-	-	-	32,665
114	2,418	-	15,757
24,514	39,276	21,479	1,220,081
12,499	-	-	99,109
-	-	-	183,083
-	-	-	465
12,499	-	-	282,657
131,497	157,809	-	478,958
-	44,314	-	151,840
-	3,518	-	616,412
216,085	19,530	-	3,641,751
(111,822)	(51,846)	-	(1,949,885)
235,760	173,325	-	2,939,076
-	3,270	-	481,386
-	-	-	407,381
22,971	-	-	556,783
-	374	-	28,016
22,971	3,644	-	1,473,566
$ 295,744	$ 216,245	$ 21,479	$ 5,915,380

(Continued)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
LIABILITIES				
CURRENT LIABILITIES:				
Vouchers and contracts payable	$ 106,068	$ 838	$ 6,083	$ 88,926
Other accrued liabilities	95,626	12,362	5,051	-
Due to Primary Government	6,000	-	-	2,000
Deferred revenue	36,816	23,251	-	-
Estimated future costs of land sold	-	34,926	-	-
Notes, mortgages, and installment contracts payable	-	60	-	9,212
Accrued vacation and retirement benefits payable	27,440	-	-	16,036
Revenue bonds payable — net	14,240	4,982	-	-
Reserve for losses and loss adjustment costs	5,279	-	-	3,058
Capital lease obligations	-	-	-	7,257
Other liabilities	-	1,848	1,689	1,152
Total current liabilities	291,469	78,267	12,823	127,641
NONCURRENT LIABILITIES:				
Notes, mortgages, and installment contracts payable	-	5,576	-	25,352
Accrued vacation and retirement benefits payable	47,162	-	-	28,779
Revenue bonds payable — net	608,670	441,562	-	-
Reserve for losses and loss adjustment costs	9,606	-	-	11,836
Premium on bonds payable	5,625	-	-	-
Capital lease obligations	-	-	-	24,929
Due to Primary Government	722	-	-	21,300
Other postemployment benefit liability	413,462	2,451	9,289	196,718
Other liabilities	15,844	2,549	1,469	23,020
Total noncurrent liabilities	1,101,091	452,138	10,758	331,934
TOTAL	1,392,560	530,405	23,581	459,575
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	1,336,377	27,722	296,504	250,811
RESTRICTED	765,876	243,013	4,952	663
UNRESTRICTED (DEFICIT)	(130,130)	272,557	70,575	(163,129)
TOTAL NET ASSETS	$ 1,972,123	$ 543,292	$ 372,031	$ 88,345

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 3,544	$ 447	$ 400	$ 206,306
98	147	-	113,284
19,409	-	-	27,409
-	50	-	60,117
-	-	-	34,926
-	-	-	9,272
120	94	-	43,690
-	-	-	19,222
-	-	-	8,337
-	-	-	7,257
-	853	-	5,542
23,171	1,591	400	535,362
-	-	-	30,928
346	296	-	76,583
-	-	-	1,050,232
-	-	-	21,442
-	-	-	5,625
-	-	-	24,929
274,436	4	-	296,462
1,386	1,105	-	624,411
-	25,724	-	68,606
276,168	27,129	-	2,199,218
299,339	28,720	400	2,734,580
(10,890)	173,325	-	2,073,849
7,295	1,242	-	1,023,041
-	12,958	21,079	83,910
$ (3,595)	$ 187,525	$ 21,079	$ 3,180,800

(Concluded)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
EXPENSES	$ 1,616,105	$ 57,856	$ 123,513	$ 668,136
PROGRAM REVENUES:				
Charges for services	377,077	41,829	18,435	524,674
Operating grants and contributions	481,847	25,304	74,106	1,614
Capital grants and contributions	-	-	11,030	28,184
Total program revenues	858,924	67,133	103,571	554,472
Net program (expenses) revenues	(757,181)	9,277	(19,942)	(113,664)
GENERAL REVENUES (EXPENSES):				
Interest and investment income	1,272	(446)	-	310
Payments from (to) the State	692,572	36,500	3,106	73,376
Other	49,815	-	1,658	(741)
Net general revenues (expenses)	743,659	36,054	4,764	72,945
Change in net assets	(13,522)	45,331	(15,178)	(40,719)
NET ASSETS — Beginning of year	1,985,645	497,961	387,209	129,064
NET ASSETS — End of year	$ 1,972,123	$ 543,292	$ 372,031	$ 88,345

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 108,727	$ 13,682	$ 3	$ 2,588,022
9,607	7,958	-	979,580
-	-	-	582,871
-	-	-	39,214
9,607	7,958	-	1,601,665
(99,120)	(5,724)	(3)	(986,357)
442	59	338	1,975
104,641	1,710	(400)	911,505
(1,000)	-	-	49,732
104,083	1,769	(62)	963,212
4,963	(3,955)	(65)	(23,145)
(8,558)	191,480	21,144	3,203,945
$ (3,595)	$ 187,525	$ 21,079	$ 3,180,800

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the State of Hawaii (the "State") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The State's significant accounting policies are described below.

Reporting Entity — The accompanying basic financial statements present the financial activity of the State ("Primary Government") and its Component Units, entities for which the Primary Government is considered to be financially accountable. Discretely presented Component Units are legally separate organizations for which the Primary Government is financially accountable or for which the nature and significance of their relationship to the Primary Government are such that exclusion would cause the State's reporting entity to be misleading or incomplete.

Primary Government — The following branches and departments are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

Executive:
- Accounting and General Services
- Agriculture
- Attorney General
- Budget and Finance
- Business, Economic Development and Tourism
- Commerce and Consumer Affairs
- Defense
- Education
- Hawaiian Home Lands
- Health
- Human Resources Development
- Human Services
- Labor and Industrial Relations
- Land and Natural Resources
- Public Safety
- Taxation
- Transportation

Judicial

Legislative

Discretely Presented Component Units — The Component Units column in the basic financial statements includes the financial data of the State's discretely presented Component Units. They are reported in a separate column to emphasize that they are legally separate from the State. The governing bodies of these discretely presented Component Units are appointed by the Governor of the State ("Governor"). The discretely presented Component Units are as follows:

University of Hawaii — The University of Hawaii (UH) is Hawaii's sole public higher education system and is governed by a Board of Regents consisting of fifteen members appointed by the Governor of the State of Hawaii. The University system is comprised of ten campuses with approximately 60,000 students and 10,000 faculty and staff. The University provides a broad range of 377 degree programs from baccalaureate to post-doctoral level, through a framework of sixteen colleges and nine professional schools. Through its seven community colleges on Oahu, Hawaii, Maui, and Kauai, UH offers more than 257 certificate and associate degree programs and in certain areas, baccalaureate degrees. In addition to organized research institutes and administrative service and distance learning centers, the UH system houses more than a hundred centers with research and service activities at hundreds of Hawaii schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries. Hawaii Revised Statutes (HRS) Chapter 304 governs the activities of the UH.

Hawaii Housing Finance and Development Corporation — Hawaii Housing Finance and Development Corporation (HHFDC) is a corporate body placed within the Department of Business, Economic Development and Tourism (DBEDT) for administrative purposes. Act 196, SLH 2005, as amended by act 180, SLH 2006, created the HHFDC. The HHFDC is tasked with developing and financing low and moderate income housing projects and administering home-ownership programs. HRS 201H states that the HHFDC shall be a public body and a body corporate and politic and be headed by a board of directors comprised of nine voting members. The nine members consist of the following:

- Six shall be public members appointed by the Governor:
  - At least four of the public members shall have knowledge and expertise in public or private financing and development of affordable housing.
  - Public members shall be appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai.
  - At least one public member shall represent community advocates for low-income housing, affiliated with private nonprofit organizations that serve the residents of low-income housing.
  - The public members of the board of directors shall serve four-year staggered terms; provided that the initial appointments shall be as follows:
    - Two members to be appointed for four years;
    - Two members to be appointed for three years; and
    - Two members to be appointed for two years.
- The Director of DBEDT or a designated representative,
- The Director of Finance or a designated representative, and
- A representative of the Governor's office.

Hawaii Public Housing Authority — Act 196, SLH 2005, as amended by Act 180, SLH 2006, created the Hawaii Public Housing Authority (the Authority).

The Authority's mission is to provide safe, decent and sanitary dwelling for low and moderate income residents of Hawaii and to operate its housing program in accordance with federal and state of Hawaii laws and regulations.

HRS Chapter 356D states that the HPHA shall be a public body and a body corporate and politic and be headed by a board of directors comprised of 11 members. The 11 members consist of the following:

- Nine public members appointed by the Governor (four appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai, and five appointed at large);
- The Director of Human Services, as an Ex Officio voting member; and
- The Representative of the Governor's Office, as an Ex Officio voting member.

Hawaii Health Systems Corporation — The Hawaii Health Systems Corporation (HHSC) is a public body corporate and politic and an instrumentally and agency of the State of Hawaii. HHSC is managed by a chief executive officer under the control of a 13-member board of directors.

In June 1996, the Legislature of the State passed Act 262, S.B. 2522. The Act, which became effective in fiscal year 1997, transferred all facilities under the administration of the Department of Health — Division of Community Hospitals to HHSC. HHSC operates the following facilities:

East Hawaii Region:
Hilo Medical Center
Hale Ho'ola Hamakua
Ka'u Hospital
Yukio Okutsu Veterans Care Home

West Hawaii Region:
Kona Community Hospital
Kohala Hospital

Kauai Region:
Kauai Veterans Memorial Hospital
Samuel Mahelona Memorial Hospital

Maui Region:
Maui Memorial Medical Center
Kula Hospital
Lanai Community Hospital

Oahu Region:
Leahi Hospital
Maluhia
Kahuku Medical Center

Act 262 also amended a previous act to exempt all facilities from the obligation to pay previously allocated central service and departmental administration expenses by the State.

HHSC is considered to be administratively attached to the Department of Health of the State and is a component unit of the State. Hawaii Health Systems Foundation (HHSF) and Alii Community Care, Inc. (Alii) are nonprofit organizations of which HHSC is the sole member. The purpose of HHSF is to raise funds and obtain gifts and grants on behalf of HHSC. The purpose of Alii is to own, manage, and operate assisted living and other healthcare facilities in the State.

In June 2007, the State legislature passed Act 290, S.B. 1792. This Act, which became effective July 1, 2007, required the establishment of a seven to 15 member regional system board of directors for each of the five regions of the HHSC system. Each regional board was given custodial control and responsibility for management of the facilities and other assets in their respective regions. This Act also restructured the 13-member HHSC board of directors to 15 members, comprised of 10 members appointed by the governor from nominees submitted by legislative leadership, two at-large members at the governor's discretion, two physician members selected by the HHSC board, and the State Director of Health.

Act 290 also exempted the regions from the requirements of the State procurement code and other exemptions from State agency laws, such as tax clearance certificate requirements, the concession law, and the sunshine law.

In 2009, the Legislature passed Act 182, S.B. 1673, effective July 1, 2009, which allowed the individual facilities or regions of HHSC to transition into a new legal entity in any form recognized under the laws of the State of Hawaii, including but not limited to a nonprofit corporation, a for-profit corporation, a municipal facility, a public benefit corporation, or a combination of the above. The act also amended the requirement for maintenance of services to outline a process that must be followed in order for a facility to substantially reduce or eliminate a direct patient care service. Further, the Act reconstituted the HHSC board of directors to a 12-member board of directors which includes the five regional chief executive officers, one representative each appointed by the East Hawaii, West Hawaii, Kauai, and Oahu regional boards, two members appointed by the Maui regional board, and the Director of the Department of Health as an ex-officio non-voting member.

In June 2011, the Legislature passed Act 126, S.B. 1300, effective July 1, 2011, which reconstituted the HHSC board of directors to a 13-member board of directors by adding an at-large voting member appointed by the governor of the State of Hawaii and changing the voting status of the Director of the Department of Health from non-voting to voting member.

Hawaii Tourism Authority — The Hawaii Tourism Authority (HTA) was established on January 1, 1999, by Act 156, SLH of 1998 and was placed within DBEDT for administrative purposes. The HTA is responsible for developing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan as it relates to the State's tourism industry, employment, taxes, and lesser known and underutilized destinations. In addition, effective July 1, 2000, control and management of the Hawaii Convention Center (the "Center") was transferred to the HTA from the Convention Center Authority (CCA) by Executive Order No. 3817. Effective July 1, 2002, the Center, by statute, became the responsibility of the HTA. The Center, which opened to the general public in June 1998, is used for a variety of events including conventions and trade shows, public shows, and spectator events. The Center offers approximately 350,000 square feet of rentable space including 51 meeting rooms.

The HTA is governed by a board of directors comprised of 12 voting members. The governor appoints the 12 voting members.

Hawaii Community Development Authority — The Hawaii Community Development Authority (HCDA) was established as a body corporate and a public instrumentality of the State of Hawaii which is attached to DBEDT for administrative purposes. The HCDA was established to supplement traditional community renewal methods by promoting and coordinating public and private sector community development. The

HCDA has redevelopment responsibility for the Kakaʻako, Kalaeloa, and Heʻeia Community Development Districts.

The Hawaii Community Development Authority (HCDA) was established by HRS Chapter 206E, to join the strengths of private enterprise, public development and regulation into a form capable of long-term planning and implementation of improved community development in urban areas in the State.

The HCDA is comprised of 21 (13 regular members, five and three members who vote only on Kalaeloa and He'eia matters, respectively) voting members who, as a body, oversees the HCDA's operations and establishes policies to implement its legislative objectives. The board is required to report annually to the State Legislature and the Governor. The 21 member board is comprised of the following:

- 13 members that vote on issues related to Kakaʻako and Kalaeloa:
    - Two members appointed by the Governor from a list of names submitted by the President of the Senate and the Speaker of the House of Representatives;
    - Three members appointed by the Governor from a list of names submitted by the Honolulu City Council;
    - Four at-large members appointed by the Governor;
    - The Director of Budget and Finance, as an Ex Officio voting member;
    - The Director of DBEDT, as an Ex Officio voting member;
    - The Comptroller of the Department of Accounting and General Services, an Ex Officio voting member; and
    - The Director of Transportation, as an Ex Officio voting member.
- Five members appointed by the Governor that vote only on issues related to Kalaeloa:
    - The Chairperson of the Hawaiian Homes Commission;
    - The Director of the City and County of Honolulu Department of Planning and Permitting;
    - Two members from the surrounding community, one of which is selected by the Mayor of the City and County of Honolulu; and
    - One member who is a Hawaiian Cultural Specialist.
- Three members appointed by the Governor that vote only on issues related to Heʻeia:
    - All three members shall be residents of the Heʻeia district or the Koolaupoko district

Hawaii Hurricane Relief Fund — The Hawaii Hurricane Relief Fund (HHRF) was organized pursuant to, and operates in accordance with, HRS Chapter 431P. The HHRF, which began its operations on July 1, 1993, was established as a public body and a body corporate and politic to be placed within the Department of Commerce and Consumer Affairs for administrative purposes. The HHRF was primarily organized to provide hurricane property insurance policies in Hawaii in the event the private insurance market does not make such policies readily available to consumers in Hawaii.

Due to the increase in the availability of hurricane property insurance coverage from the private sector, the HHRF ceased writing hurricane property insurance policies effective December 1, 2000.

Although the HHRF no longer functions in its capacity to provide hurricane property insurance coverage subsequent to November 2001, it has been determined at this time that the HHRF should not be dissolved in the event it may need to reenter the insurance market.

The HHRF is administered and operated by a board of directors. The board of directors consists of the following seven members:

- The Insurance Commissioner, as an Ex Officio voting member, appointed by the Governor; and
- Six members appointed by the Governor with the advice and consent of the Senate:
  - Two members appointed by the Governor;
  - Two members appointed by the Governor from a list of nominations submitted by the President of the Senate; and
  - Two members appointed by the Governor from a list of nominations submitted by the Speaker of the House of Representatives.

Information for obtaining financial statements for the discretely presented Component Units may be obtained from the Department of Accounting and General Services (DAGS), 1151 Punchbowl Street, Room 400, Honolulu, Hawaii 96813.

The Employees' Retirement System of the State of Hawaii (ERS), which is administered on behalf of public employees for both the State and county governments, and the Office of Hawaiian Affairs (OHA), which exists for the betterment of the conditions of native Hawaiians, are excluded from the State's reporting entity because those agencies, based on the fiscal independence and/or separate legal entity status, are not accountable to the State.

Government-Wide and Fund Financial Statements — The Government-Wide financial statements (the Statement of Net Assets and the Statement of Activities) report information of all of the nonfiduciary activities of the Primary Government and its Component Units. For the most part, the effect of interfund activity has been removed from these Government-Wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from the legally separate Component Units for which the Primary Government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net assets are restricted when legally enforceable enabling legislation places restrictions or when restrictions are externally imposed by citizens and/or public interest groups. Additionally, restricted net assets are reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the government has other cause for reconsideration. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for Governmental Funds, Proprietary Funds, Fiduciary Funds, and major Component Units. However, the Fiduciary Funds are not included in the Government-Wide financial statements. Major individual Governmental Funds and major individual Proprietary Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation —

Government-Wide Financial Statements — The Government-Wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Funds Financial Statements — The Governmental Funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include taxpayer-assessed tax revenues. Taxpayer-assessed tax revenues primarily consist of income and general excise taxes. Other revenues which are not considered susceptible to accrual, and therefore, are not accrued include fines, forfeitures and penalties, licenses, permits, and franchises.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred as of fiscal year-end and funds are available.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements — The financial statements of the Proprietary Funds, Fiduciary Funds, and Component Units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the Government-Wide financial statements described above. Agency Funds do not have a measurement focus and report only assets and liabilities.

In accordance with the GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the State has elected not to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fund Accounting — The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the State that are reported in the accompanying fund financial statements have been classified into the following major and nonmajor Governmental and Proprietary Funds. In addition, a description of the Fiduciary Funds and Component Units are as follows:

Governmental Fund Types — The State reports the following major Governmental Funds:

- General Fund — This fund is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- Capital Projects Fund — This fund accounts for substantially all of the financial resources obtained and used for the acquisition or construction of the State's capital assets and facilities. Such resources are derived principally from proceeds of general obligation and revenue bond issues, federal grants, and transfers from the Special Revenue Funds.

- Med-Quest Special Revenue Fund — This fund accounts for the State's Medicaid program through which healthcare is provided to the low-income population. The Medicaid program is jointly financed by the State and the federal government.

The nonmajor Governmental Funds are comprised of the following:

- Special Revenue Funds — These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.

- Debt Service Fund — This fund accounts for the financial resources obtained and used for the payment of principal and interest on general and revenue long-term bond obligations. This fund also accounts for financial resources obtained and used to refund existing debt.

Proprietary Fund Type — Enterprise Funds — The major Enterprise Funds are comprised of the following:

- Department of Transportation — Airports Division ("Airports") — Airports operates the State's airports and air navigation facilities and is responsible for general supervision of aeronautics within the State.

- Department of Transportation — Harbors Division ("Harbors") — Harbors maintains and operates the State's commercial harbors system.

- Unemployment Compensation Fund — This fund accounts for the unemployment compensation benefits to qualified recipients.

The nonmajor Enterprise Funds are comprised of, the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), the Water Pollution Control Revolving Fund (WPCF), and the Drinking Water Treatment Revolving Loan Fund (DWTLF). The EUTF accounts for the benefits relating to active employees and beneficiaries, which includes medical, dental, and life insurance coverage. The WPCF accounts for loans to county agencies for the construction of wastewater treatment facilities. The DWTLF accounts for loans to county agencies for construction of drinking water treatment facilities.

Fiduciary Fund Types —

- Agency Funds — Agency Funds account for retiree healthcare benefits, which includes medical, dental, and life insurance coverage as well as, various taxes, deposits, and property held by the State, pending distribution to other governments and individuals.

Component Units — Component Units are comprised of (1) the UH, which is comprised of the State's public institutions of higher education; (2) the HHFDC, which finances housing programs for residents of the State; (3) the HPHA, which manages state housing programs; (4) the HHSC, which was established to provide quality health care for all of the people of the State; (5) the HTA, which manages the State's convention center as well as markets the State's visitor industry; (6) the HCDA, which coordinates private and public community development for residents of the State; and (7) the HHRF, which funds, assesses, and provides, when necessary, hurricane property insurance to residents of the State.

Cash and Cash Equivalents — Cash and cash equivalents include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and time certificates of deposit. For purposes of the statement of cash flows, the State has defined cash equivalents to be all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Receivables and Payables — Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the Government-Wide financial statements as internal balances.

All tax and other receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

Investments — Investments in U.S. government securities and time certificates of deposit are carried at fair value based on quoted market prices. Investments in repurchase agreements are carried at cost. Investments in student loan auction rate securities are reported at fair value, which is generally calculated using the present value of projected cash flows methodology.

Inventories — Inventories of developments in progress and units available for sale are stated at the lower of cost or estimated net realizable value, with cost being determined by the specific-identification method. All estimated carrying costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Units available for sale include constructed units, developed lots, and repurchased units available for sale. Developments in progress include construction in progress and land held for future development.

Materials and supplies inventories are stated at the lower of cost or market, with cost being determined principally using the first-in, first-out method.

Inventories in the Governmental Funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets — Revenue bond indentures authorize the State's trustees to invest monies in time certificates of deposit, money market funds, and investment securities, including U.S. government or agency obligations, certain municipal bonds, and repurchase agreements. Uninsured time certificates of deposit are required to be collateralized by investment securities of an equal or greater market value. The underlying securities for repurchase agreements are required to be U.S. government or agency obligations of an equal or greater market value held by the State's agent in the State's name.

Capital Assets — Capital assets, which include land and land improvements, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), buildings and improvements, and equipment, are reported in the applicable governmental and business-type activities columns, as well as the Component Units column, in the Government-Wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed to the extent the State's capitalization thresholds are met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned, on the invested proceeds over the same period.

The State's capitalization thresholds are $5,000 for equipment, and $100,000 for land and land improvements, infrastructure, and buildings and improvements. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities.

Capital assets of the Primary Government, as well as the Component Units, are depreciated or amortized using the straight-line method over the following estimated useful lives:

Infrastructure	12–50 years
Buildings and improvements	15–30 years
Equipment	5–7 years

Works of art and historical treasures held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are capitalized. These items are protected, kept encumbered, conserved, and preserved by the State. It is the State's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

Compensated Absences — It is the State's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the Government-Wide, Proprietary Funds, and Component Units financial statements. A liability for these amounts is reported in the Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations — In the Government-Wide financial statements, Proprietary Fund financial statements, and Component Unit financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, Proprietary Fund, or Component Units statement of net assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount, or deferred amount on refunding. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

In the fund financial statements, Governmental Funds recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets and Fund Balance — In the Government-Wide financial statements and Proprietary Funds and Component Units financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the State (such as citizens, public interest groups, or the judiciary), or imposed by law through enabling legislation, and include unspent proceeds of bonds issued to acquire or construct capital assets.

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The State classifies fund balance based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54 ("GASB 54"), *Fund Balance Reporting and Governmental Fund Type Definitions*. Classifications include:

- *Restricted* — Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.
- *Committed* — Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the state legislature.
- *Assigned* — Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.
- *Unassigned* — Residual balances that are not contained in the other classifications.

Nonexchange Transactions — The Enterprise Funds and Component Units recognize contributed capital as nonoperating revenues.

Medicare and Medicaid Reimbursements — Revenues from services reimbursed under Medicare and Medicaid programs are recorded at the estimated reimbursable amounts. Final determination of the amounts earned is subject to review by the fiscal intermediary or a peer review organization. The State has the opinion that adequate provision has been made for any adjustments that may result from such reviews.

Risk Management — The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first $1,000,000 per occurrence of property losses, the first $4,000,000 with respect to general liability claims, and the first $500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $225,000,000, except for flood and earthquake, which individually is a $225,000,000 aggregate loss, and terrorism, which is $50,000,000 per occurrence. The annual aggregate limit for general liability losses is $15,000,000 per occurrence and for crime losses, the limit per occurrence is $10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of $35,000,000 per occurrence and $39,000,000 in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

Deferred Compensation Plan — The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits

employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying basic financial statements.

Use of Estimates — The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

New Accounting Pronouncements

GASB Statement No. 60 — The GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which will be effective for years beginning after December 15, 2011. This Statement improves financial reporting by addressing issues related to service concession arrangements. The State does not expect this Statement will have a material effect on its financial statements.

GASB Statement No. 61 — The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, which will be effective for years beginning after June 15, 2012. This Statement modifies certain requirements for inclusion of Component Units in the financial reporting entity. The State is currently evaluating the impact that GASB Statement No. 61 will have on its financial statements.

GASB Statement No. 62 — The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* is effective for reporting periods beginning after December 15, 2011. The objective of this Statement is to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 63 — The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which will become effective for financial statements for periods beginning after December 15, 2011. GASB Statement No. 63 provides financial statement presentation guidance for these elements; however, it does not identify any additional items that should be recognized within these element classifications. GASB Statement No. 63 only will apply to items that have been specifically identified by the GASB as deferred outflows of resources or deferred inflows of resources. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 65 – The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will become effective for financial statements for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources of deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were

previously reported as assets and liabilities. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 66 - The GASB issued Statement No. 66, *Technical Corrections – 2012 – an Amendment of GASB Statement No. 10 and No. 62*, which will become effective for financial statements for periods beginning after December 15, 2012. The objective of this Statement is to resolve conflicting accounting and financial reporting guidance between previously issued statements. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 68 – The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will become effective for financial statements for periods beginning after June 15, 2014. This Statement establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The State is currently evaluating the impact that GASB Statement No. 68 will have on its financial statements.

2. CASH AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Primary Government based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, auction rate securities, and repurchase agreements with federally-insured financial institutions.

Cash — The State maintains approximately 20 bank accounts for various purposes at locations throughout the State and the nation. Bank deposits are under the custody of the Director of Finance. For financial statement reporting purposes, cash and cash equivalents consist of cash, time certificates of deposit, and money market accounts. Cash and cash equivalents also include repurchase agreements and U.S. government securities with original maturities of three months or less.

The carrying amount of the State's unrestricted and restricted deposits (cash, time certificates of deposit, and money market accounts) as of June 30, 2012, was $1,865,468,000 and $892,601,000 respectively, for the Primary Government and unrestricted cash for the Fiduciary Funds as of June 30, 2012, was $478,464,000.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits for the Primary Government and Fiduciary Funds amounted to $1,981,723,000 at June 30, 2012. Of that amount, $1,981,623,000 represents bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State. Bank balances of $47,301,000 represent deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized and the Special Revenue Funds' and Proprietary Funds' cash in bank, which was uninsured and uncollateralized. The Special Revenue Funds' and Proprietary Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances

to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

Investments — The State holds investments both for its own benefit and as an agent for other parties.

Further, the State pools all excess funds into an investment pool that is administered by the State Department of Budget and Finance. The pool's investment options are limited to investments listed in the Hawaii Revised Statutes. As of June 30, 2012, the State had material investments in repurchase agreements. According to the Department of Budget and Finance, the repurchase agreement investment contracts are valued on the cost basis.

At the end of each year the Department of Budget and Finance ("Budget and Finance") allocates the investment pool amount to each of the participants including those participants who are part of the proprietary fund and fiduciary fund. The allocation is based on the average monthly investment balance of each participant in the investment pool.

The following tables present the State's investments and maturities at June 30, 2012 (amounts expressed in thousands).

		Maturity (in Years)		
	Fair Value	**Less than 1**	**1–5**	**>5**
Investments — Primary Government:				
Student loan auction rate securities	$ 225,936	$ -	$ -	$ 225,936
Certificates of deposit	263,592	263,592	-	-
U.S. government securities	348,319	168,642	133,821	45,856
Repurchase agreements	103,554	85,950	17,604	-
	$ 941,401	$ 518,184	$ 151,425	$ 271,792
Investments — Fiduciary Funds:				
Student loan auction rate securities	$ 22,208	$ -	$ -	$ 22,208
Certificates of deposit	25,909	25,909	-	-
U.S. government securities	34,237	16,576	13,153	4,508
Repurchase agreements	10,178	8,448	1,730	-
	$ 92,532	$ 50,933	$ 14,883	$ 26,716

Interest Rate Risk — As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit Risk — The State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds and student loan resource securities maintaining a Triple-A rating.

The State's investments include auction rate securities collateralized by student loans issued by the federal government. Liquidity for these auction rate securities is typically provided by an auction process which allows holders to sell their notes and reset the applicable interest rate at predetermined intervals of 7 to 28 days. Beginning in 2009 and throughout 2010, auctions failed and investors without the ability to hold such securities until maturity have taken significant losses. The auction failures appear to have been attributable to inadequate buyers and/or buying demand. In the event that there is a failed auction, the indenture governing the security generally requires the issuer to pay interest at a default rate that is generally above market rates for similar instruments. The securities for which auctions have failed will continue to accrue interest at the predetermined rate and be auctioned periodically until the auction succeeds, the issuer calls the securities, they mature, or the State is able to sell the securities to third parties. During 2012, the State recorded a fair value adjustment of $10,100,000 to decrease the carrying value of the State investment pool's auction rate securities to their fair value at June 30, 2012.

On November 23, 2010, the State and Citigroup Global Market Inc. ("Citi") reached an agreement whereby in June 2015, the State will have the option to require Citi to purchase some or all of the State's remaining investments in auction rate securities. The agreement also provides that starting July 2012, the State will have the ability to obtain interim liquidity on its auction rate securities portfolio of up to $150 million worth of securities, at market value, with the difference between that market value and par paid by Citi in July 2015.

As of June 30, 2012, the State's auction rate securities portfolio had a cost of $479,600,000 and an estimated fair value of $458,797,000. The estimated fair value is comprised of $408,917,000 attributable to the auction rate securities and $49,880,000 million attributable to the fair value of the Citi settlement agreement.

Custodial Risk — For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms, which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping, certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

Concentration of Credit Risk — The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

3. CAPITAL ASSETS

For the fiscal year ended June 30, 2012, capital assets activity for the Primary Government (governmental activities and business-type activities) was as follows (amounts expressed in thousands):

	Governmental Activities			
	Balance — July 1, 2011	Additions	Deductions	Balance — June 30, 2012
Capital assets not being depreciated:				
Land and land improvements	$ 2,182,065	$ 25,964	$ (884)	$ 2,207,145
Construction in progress	793,166	314,733	(400,016)	707,883
Total capital assets not being depreciated	2,975,231	340,697	(400,900)	2,915,028
Capital assets being depreciated:				
Infrastructure	8,720,586	195,972	(625)	8,915,933
Buildings and improvements	3,673,523	245,811	-	3,919,334
Equipment	361,162	36,543	(11,738)	385,967
Total capital assets being depreciated	12,755,271	478,326	(12,363)	13,221,234
Less accumulated depreciation:				
Infrastructure	(4,689,570)	(228,943)	228	(4,918,285)
Buildings and improvements	(1,953,530)	(117,813)	-	(2,071,343)
Equipment	(294,468)	(28,632)	9,815	(313,285)
Total accumulated depreciation	(6,937,568)	(375,388)	10,043	(7,302,913)
Total capital assets	$ 8,792,934	$ 443,635	$ (403,220)	$ 8,833,349

	Business-Type Activities			
	Balance — July 1, 2011	Additions	Deductions	Balance — June 30, 2012
Capital assets not being depreciated:				
Land and land improvements	$ 585,215	$ -	$ -	$ 585,215
Construction in progress	343,723	174,039	(123,639)	394,123
Total capital assets not being depreciated	928,938	174,039	(123,639)	979,338
Capital assets being depreciated:				
Land and improvements	1,097,480	79,866	(1,917)	1,175,429
Buildings and improvements	2,041,664	41,956	(8,897)	2,074,723
Equipment	258,497	4,382	(7,921)	254,958
Total capital assets being depreciated	3,397,641	126,204	(18,735)	3,505,110
Less accumulated depreciation:				
Land and improvements	(714,676)	(36,415)	1,917	(749,174)
Buildings and improvements	(1,026,098)	(63,685)	7,401	(1,082,382)
Equipment	(176,120)	(12,366)	8,791	(179,695)
Total accumulated depreciation	(1,916,894)	(112,466)	18,109	(2,011,251)
Total capital assets	$ 2,409,685	$ 187,777	$ (124,265)	$ 2,473,197

Depreciation expense for the fiscal year ended June 30, 2012, was charged to functions/programs of the Primary Government as follows (amounts expressed in thousands):

Governmental activities:	
Highways	$ 212,316
Lower education	67,498
General government	33,572
Urban redevelopment and housing	21,729
Public safety	16,287
Conservation of natural resources	8,585
Health	6,855
Economic development and assistance	4,390
Welfare	2,423
Culture and recreation	1,733
Total depreciation expense — governmental activities	$ 375,388
Business-type activities:	
Airports	$ 90,755
Harbors	20,561
EUTF	1,050
DWTLF	97
WPCF	3
Total depreciation expense — business-type activities	$ 112,466

4. GENERAL OBLIGATION BONDS PAYABLE

The State issues general obligation bonds primarily to provide for the acquisition and construction of major capital facilities. Although certain general obligation debt are being retired from the resources of the Proprietary Funds — Airports and Harbors and are recorded in those funds, all general obligation bonds are backed solely by the full faith and credit of the State.

All issues, except Series BZ, issued October 1, 1992; Series CA, issued January 1, 1993; Series CH, issued November 1, 1993; Series CM, issued December 1, 1996; Series CY, issued February 15, 2002; Series DL and DM, issued May 20, 2008; Series DO and DP, issued December 16, 2008; Series DR, issued June 23, 2009; Series DT, DV, and DW, issued November 24, 2009, Series DY, issued February 18, 2010, and Series EB, EC, and ED, issued December 7, 2011, contain call provisions. Stated interest rates range from .2% to 8%.

On December 7, 2011, the State issued $800,000,000, $403,455,000, $2,800,000, $56,225,000 and $23,750,000 of general obligation refunding bonds of 2011, Series DZ, EA, EB, EC, and ED, respectively. Interest rates were 2% to 5% to advance refund $512,515,000 of certain outstanding general obligation bonds previously issued. The net proceeds of $558,980,000 (including a premium of $74,009,000 and after payment of $1,256,000 in underwriting fees) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding general obligation bonds. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the Government-Wide financial statements. Due to the advanced refunding, the State decreased its total debt service payments over the next 12 years by $59,093,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $64,403,000. The Series EA is subject to optional redemption while Series EB, EC and ED bonds are not subject to redemption by the State prior to their respective stated maturities. The bonds were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method.

The State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunding bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's basic financial statements. At June 30, 2012, $621,415,000 of bonds outstanding is considered defeased.

At June 30, 2012, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	$4,367,419
Noncallable	1,142,540
Total general obligation bonds outstanding	5,509,959
Less amount recorded as a liability of — Proprietary Funds — Harbors	(34,611)
Amount recorded in the governmental activities of the Primary Government	$5,475,348

A summary of general obligation bonds outstanding by series as of June 30, 2012, is as follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount	Amount Outstanding
BZ	October 1, 1992	6.000%	October 1, 2012	200,000	$ 1,535
CA	January 1, 1993	5.500%–8.000%	January 1, 2012–2013	90,000	5,000
CH	November 1, 1993	4.750%	November 1, 2011–2013	250,000	27,770
CM	December 1, 1996	6.000-6.500%	December 1, 2012–2016	150,000	41,650
CW	August 1, 2001	4.300%–5.500%	August 1, 2011–2015	156,750	12,460
CY	February 15, 2002	5.50%–5.750%	February 1, 2012–2015	319,290	123,605
CZ	November 26, 2002	3.500%–5.500%	July 1, 2011–2022	300,000	17,860
DA	September 16, 2003	3.750%–5.250%	September 1, 2011–2023	225,000	101,070
DB	September 16, 2003	4.000%–5.250%	September 1, 2011–2016	188,650	101,885
DD	May 13, 2004	3.700%–5.250%	May 1, 2012–2024	225,000	42,800
DE	November 10, 2004	3.000%–5.000%	October 1, 2011–2024	225,000	130,725
DF	June 15, 2005	3.250%–5.000%	July 1, 2011–2025	225,000	163,375
DG	June 15, 2005	5.000%	July 1, 2011–2017	722,575	516,820
DI	March 23, 2006	3.800%–5.500%	March 1, 2013–2026	350,000	289,190
DJ	April 12, 2007	3.625%–5.000%	April 1, 2012–2027	350,000	306,450
DK	May 20, 2008	3.000%–5.000%	May 1, 2012–2028	375,000	359,110
DL	May 20, 2008	3.000%–5.000%	May 1, 2012–2018	29,010	25,265
DM	May 20, 2008	4.260%–4.670%	May 1, 2012–2014	25,000	8,985
DN	December 16, 2008	3.000%–5.500%	August 1, 2012-2028	100,000	100,000
DO	December 16, 2008	3.000%–5.000%	August 1, 2011-2018	101,825	90,840
DP	December 16, 2008	4.150%–5.680%	August 1, 2011-2016	26,000	22,160
DQ	June 23, 2009	3.000%–5.000%	June 1, 2013-2029	500,000	490,219
DR	June 23, 2009	3.000%–5.000%	June 1, 2014-2019	225,410	203,910
DS	November 5, 2009	.200%–1.450%	September 15, 2014-2024	32,000	32,000
DT	November 24, 2009	2.250%–5.000%	November 1, 2014-2019	204,140	204,140
DV	November 24, 2009	2.000%–5.000%	November 1, 2012	46,855	46,855
DW	November 24, 2009	2.250%–5.000%	November 1, 2013	36,425	36,425
DX	February 18, 2010	3.000%–5.530%	February 1, 2015-2030	500,000	500,000
DY	February 18, 2010	3.000%–5.000%	February 1, 2015-2020	221,625	221,625
DZ	December 7, 2011	3.500%–5.000%	December 1, 2031	800,000	800,000
EA	December 7, 2011	2.000%–5.000%	December 1, 2023	403,455	403,455
EB	December 7, 2011	2.000%	December 1, 2012	2,800	2,800
EC	December 7, 2011	2.000%–5.000%	December 1, 2013	56,225	56,225
ED	December 7, 2011	2.000%–5.000%	December 1, 2015	23,750	23,750
					$ 5,509,959

The general obligation bonds outstanding financed the Hawaiian Homes Lands Trust settlement and the acquisition, construction, extension, or improvement of various public improvement projects, including public buildings and facilities, public schools, community college and university facilities, public libraries and parks, and for other public purposes.

A summary of the bond premium activities for fiscal year 2012 is as follows (amounts expressed in thousands):

Balance — July 1, 2011	$ 214,415
GO Bond Series DZ, EA, EB, EC, and ED	183,095
Defeased Bond Series CV, CW, CX, CZ, DA, DB, DD, DE, DF, DI	(19,357)
Current-year amortization	(33,296)
Balance — June 30, 2012	$ 344,857

A summary of debt service requirements to maturity on the governmental activities' general obligation bonds is as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2013	$ 372,352	$ 259,126	$ 631,478
2014	430,556	240,722	671,278
2015	412,116	222,349	634,465
2016	406,473	201,776	608,249
2017	426,177	182,051	608,228
2018—2022	1,632,255	643,744	2,275,999
2023—2027	1,219,387	306,935	1,526,322
2028—2031	576,032	63,107	639,139
	$ 5,475,348	$ 2,119,810	$ 7,595,158

A summary of debt service requirements to maturity on the business-type activities' general obligation bonds are as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2013	$ 1,678	$ 1,702	$ 3,380
2014	1,758	1,623	3,381
2015	1,844	1,537	3,381
2016	1,932	1,449	3,381
2017	2,023	1,358	3,381
2018—2022	11,710	5,193	16,903
2023—2027	12,773	1,986	14,759
2028—2029	893	44	937
	$ 34,611	$ 14,892	$ 49,503

The State Constitution limits the amount of general obligation bonds, which may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit on the aforementioned issues. The legal debt margin at June 30, 2012, was $294,505,000.

At June 30, 2012, general obligation bonds authorized but unissued were approximately $1,551,402,000.

5. REVENUE BONDS PAYABLE

Governmental Activities — Revenue Bonds are payable from and collateralized by the Department's revenues generated from certain capital improvement projects. On December 15, 2011, the Highways issued $112,270,000 in State of Hawaii Highway Revenue Bonds of 2011, Series A, with interest rates ranging from 0.75% to 5% to finance certain highway capital improvement projects and related projects. The bonds are payable annually January 1 through 2032.

On December 15, 2011, the Highways issued $5,095,000 in State of Hawaii Highway Revenue Bonds of 2011, Series B, with an interest rate of 4% to advance refund $5,400,000 of certain outstanding highway revenue bonds previously issued. The bond is payable on January 1, 2023.

On April 2, 2009, the State of Hawaii Department of Hawaiian Homelands (DHHL) issued $42,500,000 in Revenue Bonds, Series 2009, with interest rates ranging from 4% to 6% to finance the construction of certain DHHL capital improvements projects. The bonds are payable semiannually on April and October 1 through 2039.

On December 17, 2008, the Highways issued $125,175,000 in State of Hawaii Highway Revenue Bonds, Series 2008, with interest rates ranging from 4.75% to 6% to finance certain highway capital improvement projects and related projects. The bonds are payable semiannually on January and July 1 through 2029.

On March 15, 2005, the Highways issued $60,000,000 in State of Hawaii Highway Revenue Bonds of 2005, Series A, with interest rates ranging from 3% to 5% to finance certain highway capital improvement projects and related projects. The bonds are payable semiannually on January and July 1 through 2025.

On March 15, 2005, Highways issued $123,915,000 of State of Hawaii Highway Revenue Bonds of 2005, Series B, with interest rates ranging from 3% to 5.25% to advance refund $128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable semiannually on January and July 1 through 2021.

On April 15, 2003, Highways issued $44,940,000 in State of Hawaii Highway Revenue Bonds, Series of 2003, with interest rates ranging from 3.5% to 5.25% to advance refund $45,350,000 of outstanding State of Hawaii Highway Revenue Bonds, Series of 1993, with an average interest rate of 4.42%. The bonds are payable semiannually on January and July 1 through 2013.

On July 1, 1998, Highways issued State of Hawaii Highway Revenue Bonds, Series of 1998, in the principal amount of $94,920,000. Bond proceeds related to this issue amounted to $97,542,000, of which $71,921,000 was used to finance certain highway improvements and other related projects for the state highways system, and $25,621,000 was used to refund certain outstanding highway revenue bonds. The difference in the principal amount and proceeds relates to bond premium and accrued interest. The bonds bear interest at rates of 5.5% and mature in annual installments through July 2018.

The bonds are payable solely from and collateralized by the revenues, consisting primarily of highway fuel taxes, vehicle registration fees, vehicle weight taxes, and rental motor vehicle and tour vehicle surcharge taxes.

In addition to the proceeds from the State of Hawaii Highway Revenue Bonds of 2005, Series B; the proceeds of the State of Hawaii Highway Revenue Bond of 2011, Series B, State of Hawaii Highway Revenue Bonds, Series of 2003; and a portion of the proceeds of the State of Hawaii Highway Revenue Bonds, Series of 1998 (see above); were placed in irrevocable trusts and used to purchase securities of the U.S. government to meet the debt service requirements of the refunded bonds.

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements, as DHHL and Highways defeased their obligations for payment of those bonds upon completion of those refunding transactions.

The following is a summary of Highways' and DHHL revenue bonds issued and outstanding at June 30, 2012 (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount of Issue	Outstanding Amount
Highways:					
1998	July 1, 1998	5.500 %	July 1, 2017–July 1, 2018	$ 94,920	$ 27,580
2003	April 15, 2003	3.50%–5.25%	July 1, 2011–2013	44,940	10,465
2005 A	March 15, 2005	3.00%–5.00%	July 1, 2011–2025	60,000	46,675
2005 B	March 15, 2005	3.00%–5.25%	July 1, 2011–2021	123,915	112,155
2008	December 17, 2008	4.75%–6.00%	January 1, 2012–2029	125,175	113,415
2011 A	December 15, 2011	0.75%-5.00%	January 1, 2013-2032	112,270	112,270
2011 B	December 15, 2011	4.00%	January 1, 2023	5,095	5,095
DHHL:					
2009	April 2, 2009	4.00%–6.00%	April 1, 2012–2039	42,500	40,525
					$ 468,180

A summary of the revenue bond premium activities for fiscal year 2012 is as follows (amounts expressed in thousands):

	Revenue Bonds
Balance — July 1, 2011	$ 9,341
Current-year additions	13,619
Current-year amortization	(2,190)
Balance — June 30, 2012	$ 20,770

Debt service requirements to maturity on revenue bonds are aggregated below (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2013	$ 27,030	$ 23,348	$ 50,378
2014	28,425	21,928	50,353
2015	29,945	20,609	50,554
2016	31,390	19,148	50,538
2017	32,925	17,593	50,518
2018–2022	139,790	64,608	204,398
2023–2027	94,200	37,575	131,775
2028–2032	67,660	14,451	82,111
2033–2037	11,295	3,760	15,055
2038–2040	5,520	502	6,022
	$ 468,180	$ 223,522	$ 691,702

Business-Type Activities — Revenue bonds are backed by a pledge of resources derived from users of the related facilities and are not supported by the full faith and credit of the State.

Airports System Revenue Bonds — The Airports system revenue bonds are payable solely from and collateralized by airport revenues, which include all aviation fuel taxes levied. The Airports system revenue bonds are subject to redemption at the option of the Department of Transportation (DOT) and the State during specific years at prices ranging from 102% to 100% of principal.

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2012 (amounts expressed in thousands):

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2010A, refunding	2.00%–5.25%	2039	$ 478,980	$ 478,690
2010B, refunding	3.00%–5.00%	2020	166,000	166,000
2011, refunding	2.00%-5.00%	2024	300,885	300,885
			$ 945,865	945,575
Add unamortized premium				28,858
Less:				
Deferred loss on refunding				(7,557)
Current portion				(27,545)
Noncurrent portion				$ 939,331

The certificate providing for the issuance of revenue bonds requires that the Airports division impose, prescribe, and collect revenues that, together with unemcumbered funds, will yield net revenues and taxes at least equal to 1.25 times the total interest, principal, and sinking fund requirements for the ensuing 12 months. The Airports division is also required to maintain adequate insurance on its properties. At June 30, 2012, $209,933,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

On October 4, 2011, the Airports Division issued $300,885,000 of airports system revenue bonds (Refunding Series 2011 (AMT)) at interest rates ranging from 2% to 5% to refund its outstanding Refunding Series of 2001 bonds. The average interest rates of the refunded bonds were 5.5782%. Of the net proceeds of approximately $321,287,000 (after payment of approximately $1,664,000 in underwriting fees, insurance and other costs), along with approximately an additional $7,534,000 from the debt service reserve account, approximately $328,822,000 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of Refunding Series of 2001 bonds on November 3, 2011. As a result, the refunded portion of the Refunding Series on 2001 bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

Airports Special Facility Revenue Bonds — Airports entered into three special facility lease agreements with Continental Airlines, Inc. (“Continental”) in November 1997 and July 2000, and Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. (“Sky Chefs”) effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of $25,255,000, $16,600,000, and $6,600,000, respectively. Those bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities and aggregated to $31,005,000 at June 30, 2012.

The following is a summary of pertinent information on the Airports special facility revenue bonds at June 30, 2012.

$25,255,000 Issue

The bonds bear interest at 5.625% and are subject to redemption at the option of Airports, upon the request of Continental, at prices ranging from 101% to 100%, depending on the dates of redemption, or at 100%, plus interest if the facilities are destroyed or damaged extensively.

Interest-only payments are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due.

$16,600,000 Issue

On July 15, 2000, Airports issued $16,600,000 of term special facility bonds (Continental), Refunding Series of 2000, with an interest rate of 7.00%, due June 1, 2020, to, in part; refund $18,225,000 of its outstanding Series of 1990 bonds (Continental). The bonds are subject to redemption on or after June 1, 2010, at the option of Airports, upon the request of Continental or, if the facilities are destroyed or damaged extensively, at 100% of principal, plus interest.

$6,600,000 Issue

During the year ended June 30, 2011, the bonds with a stated maturity date of December 1, 2010 were paid off. The bonds bore interest at 10.125% and were subject to redemption on or after December 1, 2003, at the

option of the Airports Division, upon the request of Sky Chefs, Inc. or, if the facilities are destroyed or damaged extensively, at 100% plus interest.

Special facility revenue bonds payable at June 30, 2012, consisted of the following (amounts expressed in thousands):

	Continental		Total
Current portion	$ 905	$ -	$ 905
Noncurrent portion	8,375	21,725	30,100
	$ 9,280	$ 21,725	$ 31,005

The special facility leases are accounted for and recorded as direct financing leases. The remaining lease payments to be paid by the lessees (including debt service requirements on the special facility revenue bonds) are recorded as a restricted asset, and the special facility revenue bonds outstanding are recorded as a liability in the accompanying basic financial statements.

Harbors Revenue Bonds — The Harbors revenue bonds are collateralized by a charge and lien on the gross revenues of the commercial harbors system and upon all improvements and betterments thereto, and all funds and securities created in whole or in part from revenues or from the proceeds of any bonds issued. The Harbors revenue bonds are subject to redemption at the option of the DOT and the State during specific years at prices at 100% of face value.

In November 2010, the Harbors Division issued $201,390,000 of Revenue Bonds, consisting of $164,275,000 of Series A of 2010 Revenue Bonds and $37,115,000 of Series B of 2010 Revenue Bonds. The Harbors Division's net proceeds of $199,749,000 (including net premiums of $256,000 and after payment of $1,897,000 in underwriting fees), were used to advance refund certain outstanding Revenue Bonds, as well as to fund future harbor capital improvement projects. The Series A of 2010 Revenue Bonds are secured by a cash deposit of $11,455,000.

The net proceeds from the Series B of 2010 Revenue Bonds, along with $2,180,000 from the Harbors Division's cash accounts, were used to advance refund $38,930,000 of the Series A of 2000 Revenue Bonds previously issued and for a redemption premium of $389,000. The advance refunding resulted in a difference between the acquisition price and the net carrying amount of the refunded debt of $1,599,000. This difference is being charged to operations over the next 11 years. However, due to the advance refunding, the Harbors Division decreased its total debt service payments over the next 11 years by $2,554,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,916,000.

The following is a summary of the Harbors' revenue bonds as of June 30, 2012 (amounts expressed in thousands):

				Current			
Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Principal Due July 1, 2012	Due January 1, 2013	Total	Noncurrent
2000	July 1, 2029	4.50%–6.00%	$ 79,405	$ -	$ -	$ -	$ 14,670
2002	July 1, 2019	3.00%–5.50%	24,420	605	-	605	9,405
2004	January 1, 2024	2.50%–6.00%	52,030	-	1,365	1,365	20,710
2006	January 1, 2031	4.00%–5.25%	96,570	-	2,645	2,645	80,420
2007	July 1, 2027	4.25%–5.50%	51,645	4,215	-	4,215	42,395
2010	July 1, 2040	3.00%–5.75%	201,390	3,210	-	3,210	196,295
			$505,460	8,030	4,010	12,040	363,895
Add unamortized premium				-	-	293	1,456
Less:							
Unamortized discount				-	-	(2)	(16)
Unamortized deferred loss on refunding				-	-	(489)	(4,744)
				$8,030	$4,010	$ 11,842	$360,591

Debt service requirements to maturity on the business-type activities' revenue bonds for fiscal years ending June 30 are aggregated below (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2013	$ 42,292	$ 65,950	$ 108,242
2014	47,835	63,716	111,551
2015	50,045	61,494	111,539
2016	52,360	59,200	111,560
2017	54,780	56,765	111,545
2018–2022	313,650	241,065	554,715
2023–2027	243,590	162,962	406,552
2028–2032	204,040	106,278	310,318
2033–2037	192,230	59,117	251,347
2038–2041	169,492	31,979	201,471
	$ 1,370,314	$ 908,526	$ 2,278,840

Revenue Bonds Authorized, but Unissued — At June 30, 2012, revenue bonds authorized, but unissued were approximately $3,835,541,000.

Special Purpose Revenue Bonds — HRS Chapter 39A authorizes the State (with legislative approval) to issue special purpose revenue bonds. Proceeds from those bonds are loaned to certain enterprises for projects deemed to be in the public interest. The bonds are not general obligations of the State and are payable solely from monies received by the State under project agreements with the recipients of the bond proceeds. Accordingly, the State has not included those bonds in its basic financial statements. Bonds outstanding at

June 30, 2012, amounted to approximately $1,397,093,000. At June 30, 2012, special purpose revenue bonds of $1,399,660,000 were authorized, but unissued.

Improvement District Bonds — The HCDA is authorized to issue improvement district bonds under HRS Chapter 206E. Proceeds from the bond issues are utilized to finance the redevelopment of districts designated by the State Legislature. The bonds are not general obligations of the State and are payable solely by assessment liens on the real property of the designated district. Accordingly, the State has not included those bonds in its basic financial statements. There were no bonds outstanding as of June 30, 2012.

6. CHANGES IN LONG-TERM LIABILITIES

Changes in the long-term liabilities for the Primary Government (governmental activities and business-type activities) were as follows (amounts expressed in thousands):

	Governmental Activities				
	Balance — July 1, 2011	Additions	Deductions	Balance — June 30, 2012	Due Within One Year
General obligation bonds payable — net	$ 4,987,544	$ 1,286,230	$ (798,426)	$ 5,475,348	$ 372,352
Accrued vacation payable	215,599	92,401	(95,217)	212,783	71,417
Revenue bonds payable	378,625	117,365	(27,810)	468,180	27,030
Reserve for losses and loss adjustment costs	153,520	43,030	(26,650)	169,900	34,493
Other postemployment benefits liability	1,975,409	760,652	(205,091)	2,530,970	-
Capital lease obligations	100,520	-	(5,180)	95,340	5,461
Total	$ 7,811,217	$ 2,299,678	$ (1,158,374)	$ 8,952,521	$ 510,753

	Business-Type Activities				
	Balance — July 1, 2011	Additions	Deductions	Balance — June 30, 2012	Due Within One Year
General obligation bonds payable — net	$ 36,221	$ -	$ (1,610)	$ 34,611	$ 1,678
Accrued vacation and retirement benefits payable	12,280	5,661	(5,625)	12,316	3,706
Revenue bonds payable	1,410,624	327,885	(368,195)	1,370,314	40,292
Reserve for losses and loss adjustment costs	4,871	1,095	(1,063)	4,903	1,116
Other postemployment benefits liability	34,808	17,527	(4,767)	47,568	-
Prepaid airport use charge fund	12,302	38,574	(2,759)	48,117	14,890
	$ 1,511,106	$ 390,742	$ (384,019)	$ 1,517,829	$ 61,682

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's Governmental Funds. Approximately 80%, 19%, and 1% of the accrued vacation liability has been paid by the General Fund, Special Revenue Funds, and Capital Projects Fund, respectively, during the fiscal year ended June 30, 2012.

7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2012 (amounts expressed in thousands):

	Due From	Due To
Governmental Funds:		
General Fund:		
Special Revenue Funds	$ 14,705	$ -
Capital Projects Fund	89,900	-
Med-Quest Special Revenue Fund	28,400	-
Debt Service Fund	-	64
	133,005	64
Capital Projects Fund:		
General Fund	-	89,900
Special Revenue Funds	-	-
Proprietary Fund	1,597	-
	1,597	89,900
Med-Quest Special Revenue Fund —		
General Fund	-	28,400
Nonmajor Governmental Funds:		
General Fund	64	14,705
Capital Projects Fund	-	-
	64	14,705
Proprietary Fund —		
Harbors	-	1,597
	$ 134,666	$ 134,666

The due from Capital Projects Fund in the General Fund consists primarily of funds transferred prior to the issuance of bonds. Remaining interfund balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded, and payment between funds are made.

8. TRANSFERS

Transfers between funds occur when a fund receiving revenues transfers resources to a fund where the resources are to be expended, or when nonrecurring or nonroutine transfers between funds occur. For the fiscal year ended June 30, 2012, transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Governmental Funds:		
General Fund — Nonmajor Governmental Funds	$ 53,497	$ 591,053
Capital Projects Fund — Nonmajor Governmental Funds	138,937	32,301
Med-Quest Special Revenue Fund — Nonmajor Governmental Funds	9,465	30,275
Nonmajor Governmental Funds:		
General Fund	586,719	26,727
Capital Projects Fund	32,301	138,937
Medquest Fund	3,505	4,997
Other Nonmajor Governmental Funds	126,293	126,427
	748,818	297,088
	$ 950,717	$ 950,717

The General Fund transferred approximately $530,067,000 to the Nonmajor Governmental Funds for debt service payments and approximately $56,652,000 to subsidize various Special Revenue Funds programs. Approximately $138,937,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects.

9. LEASES

Lease Commitments

Governmental Activities — The State leases office facilities and equipment under various operating leases expiring through fiscal 2024. Future minimum lease commitments for noncancelable operating leases as of June 30, 2012, were as follows (amounts expressed in thousands):

Fiscal Year	
2013	$ 15,098
2014	12,399
2015	9,945
2016	7,271
2017	4,711
2018–2022	11,316
2023–2024	1,086
Total future minimum lease payments	$ 61,826

Rent expenditures for operating leases for the fiscal year ended June 30, 2012, amounted to approximately $34,894,000.

On April 14, 2011, an equipment lease purchase agreement between the Department of Public Safety of the State of Hawaii and Capital One Public Funding, LLC was entered into, to fund the acquisition and installation of energy conservation equipment at the Halawa Correctional Facility and Oahu Community Correctional Center. An escrow agent to provide for future vendor payments as requested by the State deposited the proceeds of $25,512,000 in an escrow fund. Payments commenced on May 1, 2012 and continue through November 1, 2030 at an interest rate of 5.021%.

An equipment lease purchase agreement between the Department of Accounting and General Services of the State of Hawaii and Capital One Public Funding, LLC was entered into on September 3, 2009, to fund the acquisition and installation of energy conservation equipment at various State buildings in the downtown Honolulu district. The proceeds of $12,377,000 were deposited in an escrow fund by an escrow agent to provide for future vendor payments as requested by the State. Payments commenced on June 1, 2010 and continue through June 1, 2026 at an interest rate of 5.389%.

The State issued $41,120,000 in Certificates of Participation (COPS) 2009 Series A, on November 5, 2009, to fully refund $47,185,000 of the 1998 Series A Certificates and the 2000 Series A Certificates which proceeds were used to purchase the Kapolei State Office Building and the Capitol District Building. The net proceeds of $43,490,000 (including a premium of $2,876,000 and after payment of $503,000 in underwriting fees) were deposited to the Depository Trust Company in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding certificates of participation. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the Government-Wide financial statements. Due to the advance refunding, the State reduced its total debt service payments over the next 10 years by $7,487,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $7,061,000. Payments commence on May 1, 2010, and continue through May 1, 2020 with interest rates ranging from 2% - 5%.

The 2009 Series A Certificates are subject to prepayment prior to their maturity dates in the event of a casualty loss or governmental taking of all or a portion of the premises subject to the Leases, but are not otherwise subject to prepayment prior to maturity.

In November 2006, the State issued $24,500,000 in COPS to finance the construction of the Kapolei Office and Conference Facility. The proceeds of the COPS were remitted to a trustee, who will then remit the amounts to the developer as construction progresses. The holders of the COPS are the current owners of the Kapolei Office and Conference Facility. Accordingly, the State's rental payments for the use of the Kapolei Office and Conference Facility are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 2007, and continue through November 1, 2031, with interest rates ranging from 3.63% to 5.00%. Title to the Kapolei Office and Conference Facility will transfer to the State upon the payment of all required rents.

Future minimum lease payments for these capital leases are as follows (amounts expressed in thousands):

Fiscal Year	
2013	$ 10,308
2014	10,271
2015	10,563
2016	10,901
2017	11,032
2018–2022	37,682
2023–2027	28,081
2028–2032	19,191
Total future minimum lease payments	138,029
Less amount representing interest	(42,689)
Present value of net minimum lease payments	95,340
Less current portion	(5,461)
Noncurrent portion	$ 89,879

Lease Rentals

Airports — Airport-Airline Lease Agreement

Airports and the airline companies serving the Airports system ("signatory airlines") operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992. Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements, and services of the Airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter the lease agreement and the five subsequent agreements are collectively referred to as the "lease extension agreement"). The lease extension agreement

contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. In October 2007, the DOT and a majority of the signatory airlines executed the first amended lease extension agreement effective January 1, 2008.

Under the first amended lease extension agreement, the Airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airport system facilities from the signatory airlines that directly use them. The Airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (6) system support charges based on an Airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

Airports — Prepaid Airport Use Charge Fund

The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). Net excess payments for fiscal 1996 through 2012 have been transferred to the PAUCF.

Airports — Aviation Fuel Tax

In May 1996, the Department of Taxation issued a tax information release, which stated that effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The aviation fuel tax amounted to approximately $4,338,000 for fiscal year 2012.

Airports — System Rates and Charges

Signatory and nonsignatory airlines were assessed the following rates and charges:

- Landing fees amounted to approximately $63,401,000 for fiscal year 2012. Airport landing fees are shown net of aviation fuel tax credits of $3,761,000 for fiscal year 2012, on the statement of revenues, expenses, and changes in net assets, which resulted in net airport landing fees of $59,640,000 for fiscal year 2012. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports interisland landing fees for signatory airlines are set at 40% of the Airports landing fees for overseas flights for 2012 and are scheduled to increase 1% annually until it reaches 100%.

- Nonexclusive joint-use premise charges for terminal rentals amounted to approximately $47,052,000 for fiscal year 2012. Overseas and interisland joint-use premise charges were established to recover Airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates, and are recovered based on a computed rate per revenue passenger landing.

- Exclusive use premise charges amounted to approximately $41,663,000 for fiscal year 2012, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to approximately $24,044,000 for fiscal year 2012.

- Airports system support charges amounted to approximately $421,000 for fiscal year 2012. The charges were established to recover residual costs of the Airports system and are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports system interisland support charges for nonsignatory airlines are set at 32% of the Airports system support charges for overseas flights.

Airports — Other Operating Leases

Airports leases building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a basic minimum rent. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2012, was approximately $42,034,000.

In fiscal year 2006, Airports converted certain past-due amounts from two lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from zero to nine years. The balance of $220,000 at June 30, 2012, is due as follows: $126,000 in 2013, $35,000 in 2014, $35,000 in 2015, and $24,000 thereafter.

Concession fees revenues from the DFS Group L.P. (DFS), which operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 29% of total concession fees revenues for the fiscal year ended June 30, 2012.

On January 3, 2007, DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007, and terminating on May 31, 2017. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883. The amended lease contract provides for a minimum annual guarantee rent, as well as percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2011, the minimum annual guarantee rent is $38 million and the percentage rent is as follows: (1) for total concession receipts greater than $122 million, but less than $195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million, but less than $235 million, 30.0% for on-airport sales and 22.5% off-airport sales; (3) for total concession receipts greater than $235 million, but less than $275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million, 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2012 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fifth year of the lease term. Percentage rent during this period is calculated the same as during the first four years of the lease term.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on April 1, 2009, and terminating on March 14, 2014. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) minimum annual guarantee rent ($9,950,000 during the last year of the five-year term).

Harbors — Aloha Tower Complex Development

The Aloha Tower Development Corporation (ATDC) is a state agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex. The complex encompasses Piers 5 to 23 of Honolulu Harbor. In September 1993, Harbors entered into a lease with the ATDC transferring to the ATDC portions of the Aloha Tower complex. The ATDC is required annually to reimburse Harbors for any losses in revenues during the term of the lease caused by any action of the ATDC or the developer, and to provide replacement facilities for maritime activities at no cost to Harbors.

In September 1993, the ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer, and the developer and Harbors entered into a capital improvements, maintenance, operations, and securities agreement ("Operations Agreement"). The Operations Agreement allows Harbors to operate the harbor facilities at Piers 8, 9, and 10. The lease between the ATDC and the developer requires the developer to construct, at the developer's cost, various facilities, including a marketplace.

The developer later went into bankruptcy. The subsequent operator of the marketplace assumed the obligations of the sublease and the Operations Agreement in March of 1998. This replacement operator has also gone through a bankruptcy proceeding and there is a new operator who has assumed the same obligations. Although the marketplace construction was substantially completed, several items on Harbors' construction punch list have yet to be completed and are being pursued with the new operator. A settlement has been reached with the new operator to satisfy the punchlist obligations which have a total value of $3.5 million, depending upon when actual payments are made by the operator within a six-year timeframe.

An amendment of the lease executed in fiscal 2006 altered the obligations of the ATDC to reimburse Harbors on an annual basis. For the fiscal year commencing July 1, 2004, the amendment provides that the ATDC shall pay $225,000 as a minimum annual base payment. The amendment further provides that for the fiscal year commencing July 1, 2005, onward, for any year in which the ATDC shall pay for all or any portion of the cost of personnel and other expenses relating to the Hawaii Harbors Project, the parties agree that the minimum annual base payment shall be commensurately reduced by such payments.

In addition to the minimum annual base payment, the ATDC shall also pay an amount equal to 50% of the difference between the total revenues received by the ATDC for such fiscal year and the operating expenses of the ATDC for such fiscal year (equity participation payment) to reduce the amount owed to Harbors for losses in revenues by the ATDC prior to July 1, 2004. The amendment provides for an increase in the equity participation payment as the ATDC's revenues increase. The balance owed to the Harbors Division by ATDC as of June 30, 2012 was approximately $4,923,000.

At its meeting on July 13, 2011, the ATDC Board approved the transfer of the leasehold interest for the Aloha Tower Marketplace to a private operator.

Harbors — Leasing Operations

Harbors leases land, wharf, and building spaces under month-to-month revocable permits and long-term leases. The long-term leases expire during various years through September 2058. Those leases generally call for rental increases every 5 to 10 years based on a step-up or independent appraisals of the fair rental value of the leased property.

Revenues for the fiscal year ended June 30, 2012, amounted to $28,979,000 and have been included in rental revenues.

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Proprietary Funds as of June 30, 2012 (amounts expressed in thousands):

	Proprietary Funds		
Fiscal Year	**Airports**	**Harbors**	**Total**
2013	$ 114,894	$ 8,623	$ 123,517
2014	117,460	8,470	125,930
2015	109,425	7,079	116,504
2016	74,899	6,837	81,736
2017	61,742	5,427	67,169
2018–2022	109,021	25,872	134,893
2023–2027	21,019	25,151	46,170
2028–2032	13,291	21,304	34,595
2033–2037	8,770	15,221	23,991
2038–2042	16,940	9,947	26,887
2043–2047	-	6,197	6,197
2048–2052	-	2,617	2,617
2053–2057	-	2,481	2,481
2058–2059	-	517	517
	$ 647,461	$ 145,743	$ 793,204

Net Investment in Direct Financing Leases

Certain leases of state-owned special facilities to parties engaged in airline operations are accounted for as direct financing leases. At June 30, 2012, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	$ 49,687
Less amount representing interest	(21,885)
	27,802
Cash with trustee and other	3,410
	$ 31,212

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2012, consisted of the following (amounts expressed in thousands):

Fiscal Year	
2013	$ 2,777
2014	2,778
2015	2,770
2016	2,778
2017	2,776
2018–2022	10,773
2023–2027	6,110
2028	22,336
	$ 53,098

10. SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS

Hawaii Housing Finance and Development Corporation

Amounts payable from the State to the HHFDC include approximately $505,000 of miscellaneous advances previously made to other departments and approximately $13,771,000 of amounts due from the department of Hawaiian Homelands (DHHL) related to a previous agreement to transfer certain land and development rights to the State. Pursuant to this agreement, the State was required to commence 15 annual $2.2 million payments to the HHFDC in December 2004. Effective at that time, the HHFDC recorded the sale of the land and development rights and the net present value of the estimated future cash flows from the State using an imputed interest rate.

Hawaii Health Systems Corporation

In fiscal year 2003, HHSC received a $14,000,000 advance from the State to relieve its cash flow shortfall. At June 30, 2012, the full amount was not yet repaid to the State. The total amount due to the State includes $20,123,000 of cash advances to the Department of Health — Division of Community Hospitals, which was assumed by HHSC at the date of its formation. HHSC also received $10,000,000 in advances from the State. On March 30, 2010, the State agreed to defer payment of the $10,000,000 advance over four years beginning in fiscal 2012. Of the $10,000,000 in advances, $2,000,000 is due in fiscal year 2013.

Hawaii Tourism Authority

During the period from October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State's full faith and credit. The debt service for the general obligation bonds is to be primarily funded by an allocated portion of the State's transient accommodations tax revenue and revenue generated from the operation of the Center. Through June 30, 2000 and from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by the CCA and Budget and Finance, respectively.

Effective July 1, 2002, the Convention Center Fund was established by Act 253. In accordance with Act 253, the Convention Center Fund was placed within HTA and was created to receive all revenues generated from the Center's operations and an allocated portion of the revenues received from the State's TAT. Act 253 further states that all funds collected by the Convention Center Fund are to be used to pay all expenses arising from the use and operation of the Center and to pay any and all debt service relating to the Center. However, responsibility for debt service payments to the bondholders on the general obligation bonds referred to above remains with the State through Budget and Finance.

The creation of the Convention Center Fund provided HTA the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to HTA by the CCA. The terms of the payment plan require HTA to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6% through January 1, 2027. HTA's ability to meet its obligations in accordance with the payment plan is dependent upon the funds received by the Convention Center Fund. At June 30, 2012, the outstanding principal and aggregate interest amounts required to be reimbursed by HTA were $246,650,000 and $149,784,000, respectively. The scheduled payments to maturity for each of the next five years and thereafter in five-year increments are as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2013	$ 12,390	$ 14,038	$ 26,428
2014	13,135	13,294	26,429
2015	13,920	12,506	26,426
2016	14,755	11,671	26,426
2017	15,645	10,786	26,431
2018–2022	93,470	38,671	132,141
2023–2027	83,335	48,818	132,153
	$ 246,650	$ 149,784	$ 396,434

Hawaii Hurricane Relief Fund

On June 25, 2002, Act 179 was signed into law by the Governor of the State of Hawaii. The law provides that all interest earned from the principal in the Hurricane Relief Fund be transferred and deposited into the State General Fund each year that the Hurricane Relief Fund remains in existence, beginning with fiscal year 2003. For the year ended June 30, 2012, interest earned and transferred into the State General Fund amounted to $400,000.

On May 26, 2011, Act 62 was signed into law by the Governor. This law appropriated $42 million from the HHRF into the General Fund to help balance the State's fiscal year 2011 budget. The law authorizes the Governor to appropriate additional monies from the Fund, as necessary, to balance the fiscal year 2011 State Budget. In that regard, the Fund pledged to transfer an additional $69 million to the General Fund as of June 30, 2011 and made the transfer in July 2011.

The transfers to the General Fund had reduced the balance of the Fund to levels below what would be adequate to buy reinsurance in the event of a hurricane. However, Act 62 established a mechanism to replenish the Fund from fiscal years 2014 and 2015 general excise tax revenues and authorizes the Fund to issue $75 million in revenue bonds through June 30, 2015. The Fund has not issued any revenue bonds as of June 30, 2012.

11. RETIREMENT BENEFITS

Employees' Retirement System

Plan Description

All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the ERS, a cost-sharing multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were required to join the hybrid plan.

Funding Policy

Most covered employees of the contributory plan are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. Most covered employees of the hybrid plan are required to contribute 6% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirements as of June 30, 2012, 2011, and 2010, were approximately $396,380,000, $388,242,000, and $398,724,000, respectively. The State contributed 108.6%, 105.3%, and 99.6% of its required contribution for those years, respectively. Covered payroll for the fiscal year ended June 30, 2012, was approximately $2,638,338,000.

Post-Retirement Health Care and Life Insurance Benefits

Plan Descriptions

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with at less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with at less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Funding Policy and Annual OPEB Cost

Effective July 1, 2006, the State implemented GASB Statement No. 43 ("GASB 43"), *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. GASB 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions. GASB 43 requires defined benefit OPEB plans that are administered as trust or equivalent arrangements to prepare a statement of plan assets and a statement of changes in plan assets.

The reporting of active and retiree (including their respective beneficiaries) healthcare benefits provided through the same plan should separate those benefits for accounting purposes between active and retire healthcare benefits. Accordingly, the State reports the retiree healthcare benefits as OPEB in conformity with GASB 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended.

Effective July 1, 2007, the State implemented GASB Statement No. 45 ("GASB 45"), *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, which requires reporting the OPEB liability on an accrual basis. Because the Statement was implemented on a prospective basis, the OPEB liability at transition was zero.

The State is required by GASB 45 to obtain an actuarial valuation every other year. Therefore, an actuarial valuation was performed for July 1, 2011.

The State's base contribution levels to EUTF are established by statutes and the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The State's base contribution levels are currently tied to the pay-as-you-go amount necessary to provide current benefits to retirees. The State's annual OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters in GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the annual OPEB cost, contributions made, the net OPEB liability, and the funding status for the EUTF and UH for each of the plans for the fiscal year ended June 30, 2012 (amounts in thousands):

	EUTF	UH
Annual required contribution	$ 817,658	$ 134,921
Interest on net OPEB obligation	87,800	12,726
Adjustment to annual required contribution	(48,869)	(11,569)
Annual OPEB cost	856,589	136,078
Contributions made	(231,000)	(40,759)
Increase in net OPEB obligation	625,589	95,319
Net OPEB obligation — beginning of year	2,163,898	318,143
Net OPEB obligation — end of year	$ 2,789,487	$ 413,462
Actuarial accrued liability (AAL) July 1, 2011	$ 11,706,157	$ 1,860,680
Funded OPEB plan assets	-	-
Unfunded actuarial accrued liability (UAAL) July 1, 2011	$ 11,706,157	$ 1,860,680
Funded ratio	- %	- %
Covered payroll	$ 2,093,431	$ 503,900
UAAL as percentage of covered payroll	559 %	369 %

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the preceding years were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	NET OPEB Obligation
EUTF	June 30, 2012	$ 856,589	27.0 %	$ 2,789,487
	June 30, 2011	906,117	25.3 %	2,155,055
	June 30, 2010	687,847	27.8 %	1,046,690
HSTA VEBA (*)	June 30, 2010	$ 202,179	8.7 %	$ 441,026
UH	June 30, 2012	$ 136,078	30.0 %	$ 413,462
	June 30, 2011	150,637	25.7 %	318,143
	June 30, 2010	101,521	22.8 %	206,271

(*) Effective January 1, 2011, HSTA VEBA became part of the EUTF.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

	EUTF and UH
Actuarial valuation date	July 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	30 years (Open)
Asset valuation method	Fair value of assets, plus accrued contributions
Actuarial assumptions:	
Investment rate of return	4 %
Projected salary increases	3.5 %
Healthcare inflation rates:	
Medical & Rx Pre-65 (HMSA)	8.0% initial, 5.0% ultimate
Medical & Rx Pre-65 (HMSA & Kaiser-HSTA)	8.5% initial, 5.0% ultimate
Medical & Rx Post-65 (HMSA)	8.5% initial, 5.0% ultimate
Medical & Rx Post-65 (Kaiser)	15.0% initial, 5.0% ultimate
Dental	4.0% initial and ultimate
Vision	3% initial and ultimate
Medicare Part B	5% initial and ultimate

12. COMMITMENTS AND CONTINGENCIES

Commitments

General Obligation Bonds — The State has issued general obligation bonds in which repayments, including interest, are reimbursed from specific revenue sources of the Special Revenue Funds with terms corresponding to that of the related general obligation bonds (see Note 4). At June 30, 2012, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:	
Highways	$ 17,006
Agriculture	6,856
Natural Resources	3,207
All Other	374
	$ 27,443

Accumulated Sick Leave — Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to

pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2012, accumulated sick leave was approximately $1,034,722,000.

Intergovernmental Expenditures — In accordance with Act 250, SLH of 2002, 45% of revenues generated by the transient accommodations tax are to be distributed to the counties.

Guarantees of Indebtedness — The State is authorized to guarantee indebtedness of others at a maximum amount of approximately $233,500,000 for aquaculture/agriculture loans, Hawaiian Home Lands loans, various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, mortgage loans for housing projects, and rental assistance obligations of Component Units — HHFDC and HPHA. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2012.

Proprietary Fund Type — Enterprise Funds

Construction and Service Contracts

At June 30, 2012, the Enterprise Funds had commitments of approximately $329,914,000 for construction and service contracts.

Contingencies

The State has been named as defendant in numerous lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the State, such loss has been accrued in the basic financial statements. Of the remaining claims, a number of claims may possibly result in adverse judgments against the State. However, such claim amounts cannot be reasonably estimated at this time. The litigation payments relating to the fiscal years ended June 30, 2012, 2011, and 2010, approximated $3,668,000, $4,130,000, and $11,171,000, respectively.

Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as Part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately $1.3 billion over a 25-year period. The State is to receive proceeds from this settlement in January and April of the subsequent year through 2004 and thereafter on April 15 of each subsequent year. The State has received approximately $48,589,000 during the fiscal year ended June 30, 2012. As of June 30, 2012, the State expects to receive $27,900,000 for the first six months of fiscal 2013.

Office of Hawaiian Affairs

In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States re-conveyed title to those lands (collectively, the "Ceded Lands") to the State, and the Ceded Lands are to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held as a public trust for native Hawaiians and the general public, and to establish the OHA to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands to better the conditions of native Hawaiians.

In 1979, the Legislature adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the Ceded Lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987) ("*Yamasaki"*), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of moneys OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki*, the Legislature adopted Act 304, SLH 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20% of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies, paid 20% of "revenues" to OHA on a quarterly basis.

In 1993, the Legislature enacted Act 35, SLH 1993, appropriating $136.5 million to pay the amount determined to be OHA's claims, with interest, for the period June 16, 1980 through June 30, 1991.

On January 14, 1994, OHA and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA, et al. v. State of Hawaii*, *et al.*, Civil No. 94-0205-01 (1st Cir.) ("*OHA I"*)), claiming that the amount paid to OHA was inadequate and that the State had failed to account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution for damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of moneys it receives from (i) the Department of Transportation Airports Division's in-bound duty free airport concession (including receipts from the concessionaire's off-airport sales operations), (ii) the State-owned and operated Hilo Hospital, (iii) the State's public rental housing projects and affordable housing developments, and (iv) interest income, including investment earnings (collectively , the "Sources"). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the circuit court filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the circuit court filed an order granting Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the moneys it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting Plaintiffs' four partial summary judgments was granted and all proceedings in the suit were stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw. 388 (2001) that Act 304 was effectively repealed by its own terms, and that there was no judicially manageable standard, i.e., a legal standard, by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the

Ceded Lands. The Supreme Court dismissed *OHA I* for lack of justifiability, that is, that the case was not appropriate for review by the Court, noting that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution. Immediately thereafter, agencies ceased paying OHA any receipts from the Ceded Lands.

The Legislature took no action during the 2002, 2003, and 2004 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the Ceded Lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses, and permits indisputably paid for the use of improved or unimproved parcels of Ceded Lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency. In Act 34, SLH 2003, the legislature appropriated moneys from the various funds into which the Ceded Lands receipts had been deposited after the decision in OHA I was issued and agencies ceased making payments to OHA, and directed the agencies to pay them to OHA.

OHA continues to pursue claims for a portion of the revenues from the Sources and other Ceded Lands that were made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA et al. v. State of Hawaii*, et al., Civil No. 03-1-1505-07 ("*OHA II*"). In September 1996, the Office of the Inspector General of the U.S. Department of Transportation (DOT) issued a report ("IG Report") concluding that payments to OHA between 1992 and 1995 of $28.2 million by the Hawaii Department of Transportation was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Attorney General of Hawaii disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were an operating cost of the Airports and not a diversion of airport revenues. In May 1997, the Acting Administrator of the FAA concurred in writing ("FAA Memorandum") with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the circuit court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position set forth in the IG Report changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply brief, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In November 1997, the Department of Transportation and Related Agencies Appropriation Act, 1998, PL 105-66, 1997 HR 2169 ("DOT Appropriation Act") was enacted into federal law. Section 340 of the DOT Appropriation Act (Section 340) essentially provides that in exchange for there being no further payments of airport revenues for claims related to Ceded Lands, any such payments received prior to May 1, 1996 need not be repaid. The Hawaii Attorney General submitted enactment of Section 340 to the Hawaii Supreme Court in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties to submit supplemental briefs to address whether Section 340 affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro rata share of airport moneys violated federal law, and that there was no live, ripe controversy regarding those payments because the DOT Appropriation Act relieved the State and OHA of any obligation to return improper past payments.

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* sued the State for alleged breaches of fiduciary duties as purported trustee of the Ceded Lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5, and 6 of the Hawaii Constitution, violations of the Contract Clause of the U.S. Constitution, and misrepresentation and nondisclosure, by the following alleged acts (but not limited to these

acts): (1) failing to oppose the positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior $28.2 million payment in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use them as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

OHA further alleges that these alleged "breaches, errors, and omissions" were substantial factors that resulted in the passing of Section 340 and the issuance of the Hawaii Supreme Court's opinion in *OHA I*. Plaintiffs claim that, accordingly, the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in *OHA I*, and (2) amounts payable under Act 304 that have not been paid, including but not limited to, airport landing fees. Plaintiffs also sought declaratory and injunctive relief ordering the State to reinstate Act 304, pay airport-related revenues to OHA from sources other than airport revenues (and enjoining the State and its agents, employees, and officials from opposing any of the above), and sought appointment of an independent trustee to replace the State as trustee of the native Hawaiian public trust with respect to matters relating to reinstatement of Act 304 and the payment of airport-related revenues to OHA from sources other than airport revenues. On December 26, 2003, the court granted the State's motion to dismiss OHA's complaint in *OHA II*. The court entered a final judgment on May 19, 2004, encompassing the order dismissing the complaint and several procedural orders. On June 8, 2004, OHA filed a notice of appeal from the portions of the May 19, 2004 judgment dismissing its complaint in *OHA II*, denying leave to amend the complaint and denying a request for bifurcation of OHA's claims for liability and damages. The Hawaii Supreme Court affirmed the circuit court's order dismissing OHA's complaint in a decision issued September 9, 2005; granted OHA's motion for reconsideration in an order filed on December 23, 2005; and affirmed the circuit court's final judgment again in an opinion entered on April 28, 2006.

On January 17, 2008, OHA and the Governor signed a settlement agreement to finally and completely resolve and settle any and all claims and disputes relating to OHA's portion of income and proceeds from the lands of the Ceded Lands public trust under article XII, sections 4 and 6 of the Hawaii Constitution between November 7, 1978 and July 1, 2008, and to fix prospectively, the minimum amount of income and proceeds from the lands of the Ceded Lands public trust, OHA is to receive per fiscal year, under those same provisions of the Hawaii Constitution, at $15.1 million. The settlement was contingent on passage of a bill prepared jointly by OHA and the Attorney General without material changes, or, if the bill was changed, with the written approval of OHA and the Governor. The Legislature did not pass any bills for such purpose during its 2008 regular session, and directed instead that OHA and the Attorney General resume negotiations on the payment to be made by the State to resolve the dispute with OHA concerning the sum OHA should have received from November 7, 1978 to June 30, 2008, pursuant to article XII, sections 4 and 6 of the Hawaii Constitution.

On June 2, 2010, OHA filed a petition for writ of mandamus in the Hawaii Supreme Court which asked the court to compel the members of the Twenty-Sixth Legislature (which convened in January 2011) to enact legislation to pay OHA what OHA believes represents unpaid portions of the income and proceeds derived from the ceded lands between 1978 or 1980 through 2008, i.e., approximated at $200,000,000. The court entered an order denying the petition on August 18, 2010. It was reported on November 17, 2011, that the

State has reached an agreement in principle, subject to approval of the Legislature, to resolve the amount the State owes OHA through 2012 by providing OHA approximately 25 acres of land worth an estimated $200,000,000. No prediction can be made as to whether an agreement will be finalized and, if so, what form it may take.

On April 11, 2012, the Governor signed Act 15, SLH 2012 ("Act 15"), into law. Act 15 conveys title to nine parcels, valued at approximately $200,000,000 to OHA, as of July 1, 2012. Act 15 also satisfies, resolves, discharges, releases, waives, extinguishes, prohibits, and bars, finally and completely, any and all claims, disputes, controversies, rights, actions, and causes of action, OHA (or other parties claiming through OHA) has asserted or could have asserted to the income and proceeds from the Ceded Lands. Act 15 also withdrew any waiver of sovereign immunity the State may previously have made with respect to OHA's portion of receipts from Ceded Lands, and affirms that the State does not waive its sovereign immunity to permit a claim or suit to be brought to invalidate the act's operative provision.

Until the Legislature alters the amount or establishes a different means of implementing Article XII, Sections 4 and 6 of the Hawaii Constitution, Act 178 serves as the means for satisfying the State's obligation to provide OHA with a portion of the income and proceeds from the Ceded Lands, for native Hawaiians.

In November 1994, OHA and four individuals also filed complaints for declaratory and injunctive relief on November 4, 1994, and November 9, 1994 (*OHA v. Housing Finance and Development Corporation et al.*, Civil No. 94-4207-11 (1st Cir.)) to enjoin the State from alienating any Ceded Lands and extinguishing any rights Hawaiians may have in Ceded Lands that may be alienated. Alternatively, OHA sought a declaration that the amounts paid to OHA by the Housing Finance and Development Corporation (the "HFDC", since succeeded by the HHFDC, as described below) and the State for Ceded Lands that the HFDC planned to use to develop and sell housing units pursuant to Act 318, SLH 1992, were insufficient. Act 318 established a separate process for valuing the Ceded Lands the HFDC used for its two housing developments at Kealakehe and Lahaina, and quantifying the amounts of income and proceeds from the Ceded Lands that the HFDC and State were required to pay to OHA for conveying and using the parcels for the Corporation's two projects.

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell Ceded Lands, denied the declaratory ruling that the sale of Ceded Lands did not directly or indirectly release or limit Hawaiians' claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and the HFDC's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court.

On January 31, 2008, the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remand[ed] the case to the circuit court with instructions to issue an order granting the plaintiffs' request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands has [sic] been resolved." In accordance with the instructions of the Hawaii Supreme Court, the circuit court issued its order on June 4, 2008 granting plaintiffs' request for such injunction. Seeking a reversal of the January 31, 2008, decision of the Hawaii Supreme Court, the State filed a Petition for Writ of Certiorari on April 29, 2008, with the United States Supreme Court. The United States Supreme Court granted the petition for certiorari, and on March 31, 2009, unanimously reversed the Hawaii Supreme Court's decision, and remanded the case to the Hawaii Supreme Court for further proceedings not inconsistent with its opinion. The United States Supreme Court concluded that the State holds "absolute fee" title to the lands conveyed to it by the United States at statehood; that

federal law did not prevent the Legislature from deciding, as it had, to sell a portion of the Ceded Lands for the HFDC's two housing developments; and that the Supreme Court of Hawaii erred in reading the federal Apology Resolution "as recognizing claims inconsistent with the title held in 'absolute fee' by the United States and conveyed to the State of Hawaii at statehood." By orders filed on May 15, 2009, the Hawaii Supreme Court re-opened the appeal in that court "for further consideration in light of the United States Supreme Court's mandate."

On July 15, 2009 all but one of the plaintiffs filed a motion to dismiss their appeal, and all of their claims without prejudice, and the Attorney General a motion to dismiss all remaining claims, namely the claims of the plaintiff who did not join the rest of the plaintiffs' motion to dismiss.

By a judgment on appeal filed on December 14, 2009 that referred to an opinion filed on October 27, 2009, the Hawaii Supreme Court vacated the January 31, 2003 judgment, and remanded the case to the circuit court for entry of a judgment dismissing plaintiff Osorio's claims against the State without prejudice. In the Circuit Court, the Attorney General filed a motion to dismiss plaintiff Osorio's claims without prejudice, and a motion to dissolve the injunction entered on June 4, 2008. Two orders were filled in the circuit court on March 9, 2010, one dismissing plaintiff Osorio's claims without prejudice, and the other dissolving the June 4, 2008 injunction.

OHA also filed suit against the Hawaii Housing Authority (the "HHA", since succeeded by the HPHA, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA I*. OHA disagrees that the repeal and revival of the pre-*Yamasaki* law by the Hawaii Supreme Court's September 12, 2001, decision in *OHA I* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

The HFDC and the HHA were merged into the HCDCH after the suits against them described above were filed. HCDCH subsequently was bifurcated into the HHFDC and the HPHA.

The State intends to defend vigorously against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

Department of Hawaiian Home Lands

Individual Claims

In 1991, the State Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 (the "HHCA") to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

The process was a three-step process which (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the Panel) to provide the Legislature with nonbinding findings and advisory opinions for each claim; (2) provided for the Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the Legislature deemed appropriate by November 1, 1999; and (3) allowed claimants to bring de novo civil actions by December 31, 1999, if they were not satisfied with the Panel's findings and advisory opinions, or the State Legislature's response to the Panel's recommendations.

In 1997, the Legislature declared its intent to postpone acting upon the panel's recommendations until all claims had been reviewed and forwarded to it. Legislation to allow the Panel and the Legislature until September 30, 2000, to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the legislature, but vetoed by the Governor in the 1999 regular session, and the Panel sunsetted on December 31, 1999. As of September 30, 1999, the Panel had not reviewed claims from 1,376 claimants, and all but the claims of two claimants had not been acted upon by the Legislature.

On September 30, 1999, three claimants filed a suit for declaratory and injunctive relief in the U.S. District Court for the District of Hawaii to secure an injunction prohibiting the enforcement of the notice and suit filing deadlines specified in HRS Chapter 674. Kalima, et al. v. Cayetano, Civil No. 99-00671HG/LEK. A motion for preliminary injunction was heard on November 15, 1999, and denied as moot on September 28, 2000. By stipulation filed on November 13, 2000, the action was dismissed without prejudice.

On December 29, 1999, the same three claimants filed a class action lawsuit in the state circuit court for declaratory and injunctive relief and for general, special, and punitive damages for breach of trust or fiduciary duty under HRS Chapters 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661. Kalima, et al. v. State of Hawaii, et al., Civil No. 99-4771-12VSM (1st Cir.) ("Kalima I"). Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. Aguiar v. State of Hawaii, et al., Civil No. 99-612 (3rd Cir.); Silva v. State of Hawaii, et al., Civil No. 99-4775-12 (1st Cir.); Wilhelm v. State of Hawaii, et al., Civil No. 99-4774-12 (First Circuit Court); Williamson v. State of Hawaii, et al., Civil No. 99-4773-12 (First Circuit Court); Hanohano v. State of Hawaii, et al., Civil No. 99-4775-12 (First Circuit Court). The Plaintiffs in these other actions have stipulated to stay all proceedings in their actions pending the resolution of all questions of law in Kalima I that are common to the questions of law presented in their suits. Plaintiff Hanohano, Silva, Wilhelm, and Williamson have since stipulated to the dismissal of their actions without prejudice.

On March 30, 2000, the three named-plaintiffs in Kalima I filed a second class action lawsuit in the State circuit court for declaratory and injunctive relief, and for damages under HRS Chapter 673, for the Panel's and the State Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674. Kalima, et al. v. State of Hawaii, et al., Civil No. 00-1-1041-03 (1st Cir.) ("Kalima II"). All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in Kalima I that are common to both Kalima I and Kalima II.

On August 30, 2000, the circuit court entered an order in Kalima I granting Plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denying Defendants' motion for judgment on the pleadings. Essentially, the circuit court rejected Defendants' sovereign immunity, lack of subject matter jurisdiction, and no cause of action defenses the State asserted, and ruled that the Plaintiffs and those similarly situated to them (by an order filed on August 29, 2000, a class was so certified for

purposes of Count I) could pursue their claims for damages and other relief under HRS Chapters 674 and 661.

The circuit court allowed the State to take an interlocutory appeal from the August 30, 2000, order to the Hawaii Supreme Court, and entered an order staying all proceedings in Kalima I pending the Hawaii Supreme Court's disposition of the appeal. By an order entered on September 20, 2001, the Supreme Court dismissed that appeal for lack of appellate jurisdiction. The State thereafter secured a certification of finality for the August 30, 2000 order from the circuit court, and filed another notice of appeal of the order so that the questions of law the circuit court decided could be reviewed by the Supreme Court prior to trail. By an opinion issued on June 30, 2006, the Supreme Court affirmed the plaintiffs were entitled to pursue their claims for damages under HRS Chapter 674, reversed the circuit court's determination that the plaintiffs had a right to sue under HRS Chapter 661, and remanded the case to the back to trial court for further proceedings.

The plaintiffs have since filed a first and second amended complaint to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) allegedly waiting too long to receive a homestead, (2) being barred from or delayed in receiving a homestead by allegedly ultra vires rules, (3) receiving allegedly uninhabitable homesteads, (4) allegedly lost applications, (5) allegedly defectively constructed homes or infrastructure, (6) allegedly being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered, and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting subclass' claims separately and first.

By orders entered on August 6, and August 25, 2009, respectively, two new waiting list subclass representative plaintiffs were added, and the claims of one of the two previously named waiting list subclass representatives were dismissed. Trial on the liability portion of the waiting list subclass' claims began on August 4, 2009 and on November 3, 2009 the circuit judge for the case ruled that the State committed various breaches of trust between 1959 and 1988, and further proceedings were necessary to determine the amount of out-of-pocket damages the waiting list subclass members sustained, if any, as a result of those breaches. The State's motion for permission to take an immediate appeal from the circuit court's rulings before a trial on the damages portion of the waiting list subclass' claim began was denied.

After competing motions were filed by the opposing parties to establish a model to calculate damages suffered by each subclass member as a result of the breaches of trust, on January 24, 2012, the circuit court issued an order that, inter alia, state that 1) for purposes of the computation of damages, the time to run would start at the earliest six years from the date a beneficiary's application is accepted for placement on the list to receive homesteads, 2) denied Steps 1 and 2 of Defendant's proposed damages model, 3) called for motion to be presented by the parties to determine issues that the parties wish to raise with respective to individualized circumstances that can be determined on a class-wide basis, and 4) state that after resolution of the motions referenced in 3), the Court would determine the model to be used to calculate damages and whether referral to a Special Master to make such calculations is appropriate. Defendants filed a motion for reconsideration of the above-described order, which was subsequently denied.

The parties filed motions to determine issues with respect to individualized circumstances that can be determined on a class-wide basis on February 10, 2012. The hearing on those motions was postponed to permit notices to opt-out of the Waiting List Damages Model Subclass to be given. The Notice informed members of their right to opt-out by July 15, 2012, and to file damage claims on or before September 1, 2012. Ten individuals opted-out; to the best of the State's knowledge, none filed a separate damage claim on

or before September 1, 2012. The motion filed on February 10, 2012 were heard on August 31, 2012, and taken under advisement.

Trial on out of pocket damages, if necessary, has been scheduled for March 4, 2013.

Nelson et al., v. Hawaiian Homes Commission

Nelson et al., v. Hawaiian Homes Commission, et al., Civil No. 07-1-1663-08 BIA (1st Cir.) ("*Nelson*"), was filed on September 6, 2007, but not served. Instead, plaintiffs filed a First Amended Complaint on October 19, 2007, to which, with the plaintiffs' permission, the defendants State of Hawaii and Georgina Kawamura in her official capacity as the State's Director of Budget and Finance filed an answer on December 31, 2007, and the remaining defendants, the DHHL and the Hawaiian Homes Commission and its members, filed an answer on February 29, 2008.

The Nelson plaintiffs allege all defendants breached their duties under article XII, sections 1 and 2 of the Hawaii Constitution by not providing sufficient funds to DHHL to place as many beneficiaries on residential, agricultural, and pastoral homesteads within a reasonable period of time, and provide a fully functioning farm, ranch, and aquaculture support program to maximize utilization of the homestead lands. They also allege that the Hawaiian Homes Commission and its members are in breach of the Hawaiian Home Lands trust for failing to obtain sufficient funds from the Legislature, and otherwise enforcing the provisions of article XII, sections 1 and 2 of the Hawaii Constitution, including filing suit against the State. Further, they allege that DHHL and the Hawaiian Homes Commission and its members have violated the Hawaiian Homes Commission Act (the "HHC Act") by leasing Hawaiian homelands solely to generate revenue and for commercial developments that are unrelated to actual homesteading programs, and without adhering to the requirements of section 207(a) of the HHC Act.

As beneficiaries of the Hawaiian Home Lands trust and the HHC Act, the *Nelson* plaintiffs ask the court to issue a mandatory injunction requiring DHHL and the Hawaiian Homes Commission and its members to seek, and the State to provide, sufficient funds for DHHL to place as many beneficiaries on the land within a reasonable period of time. On January 21, 2009, the court granted the defendants' motion for entry of summary judgment rejecting all claims that are based on the theory that the Legislature, the State, or any State agency or employee, is required to appropriate, request, or otherwise provide or secure particular amounts of money for the DHHL and its programs now and in the future. The court concluded that the political question doctrine barred it from deciding those claims because initial policy determinations that the court lacked authority to make, were needed to resolve the parties' dispute over the definition and determination of "sufficient sums" as that term is used in article XII, section 1 of the Hawaii Constitution.

The plaintiffs also asked the court to declare that DHHL may not lease Hawaiian Home Lands trust property solely to generate revenue, and that DHHL's lease of the Honokohau Makai property is invalid, and to enjoin any further leases of trust lands for commercial developments unrelated to homesteading programs. By a stipulation filed on August 24, 2009, the claim for declaratory and injunctive relief against the DHHL's leasing of trust property solely to generate revenue was dismissed without prejudice, and the claim to invalidate the Honokohau Makai property lease was dismissed with prejudice.

On September 23, 2009, a final judgment was filed in the circuit court. Plaintiffs filed their notice of appeal from (1) the January 21, 2009 order granting the State's motion for summary judgment rejecting plaintiffs' claims that the Legislature, State or any State agency or employee is required to provide or secure particular amounts of money for DHHL and its programs, (2) the January 22, 2009 order granting the DHHL's and

Commission's joinder in the State's motion, and (3) the March 17, 2009 order denying the plaintiffs' motion for reconsideration. On January 12, 2011, the Intermediate Court of Appeals, by an opinion by J. Foley with J. Nakamura concurring separately, concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs' claims, vacated the circuit court judgment and remanded the case to the circuit court for further proceedings. The State and Director of Finance filed an application for writ of certiorari in the Hawaii Supreme Court to reverse Intermediate Court of Appeals' judgment on appeal, and affirm the circuit court's final judgment, on May 4, 2011. In the Hawaii Supreme Court, the DHHL, and the Hawaiian Homes Commission and its members changed their position, and no longer support the political question doctrine defense. The application was accepted and oral argument was heard by the Supreme Court on October 6, 2011. At the close of the argument, the case was taken under advisement by the court.

The Hawaii Supreme Court, on May 9, 2012, concluded that there are no judicially manageable standards for determining "sufficient sums" for purposes of (1) developing lots, (2) loans, and (3) rehabilitation projects, which are the first three items listed in Article XII, Section 1. The Supreme Court thus held plaintiffs' claims with respect to those items should have been rejected on political question grounds, and the Intermediate Court of Appeals erred in not so concluding. The Hawaii Supreme Court did, however, uphold the Intermediate Court of Appeals as to item (4) of Article XII, Section 1, concluding that there are judicially manageable standards to determine what constitutes sufficient sums for "administrative and operating expenses." Determination of this amount awaits further litigation in the circuit court on remand. In the meantime, plaintiffs are seeking attorneys fees, which all defendants oppose.

The State intends to defend vigorously against the claims against the State in Nelson. The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of the plaintiffs' claims in Nelson, in the respective plaintiffs' favor, could have a material adverse effect on the State's and DHHL's financial condition.

Employees' Retirement System

In *Kaho'ohanohano, et al. v. State of Hawaii*, Civil No. 02-1-1001-04 (GWBC) (1st Cir.), the plaintiffs challenged certain legislation enacted by the State Legislature in 1999 ("Act 100"). Act 100 authorized the State to apply the Employees' Retirement System's (ERS or the "System") actuarial investment earnings in excess of 10% for fiscal years 1997 and 1998 toward the State and county employees' annual contributions to the pension accumulation of the ERS fund. The plaintiffs asked the court to declare Act 100 unconstitutional, to enjoin the State from taking future actions inconsistent with Article XVI, Section 2 of the Hawaii Constitution, and to require the State to pay damages to the ERS in the amount of $346,900,000 plus lost earnings and pre- and post-judgment interest, costs, and attorneys' fees.

The plaintiffs were allowed to amend their complaint to add two state civil service employees as plaintiffs, and their motion to certify a class, consisting of all current and former public employees other than members of the legislature, judges and attorneys in the Department of the Attorney General, was granted. Motions made by the trustees of the ERS to intervene as plaintiffs and by the City and County of Honolulu to intervene as a defendant were granted. The Court made the counties of Hawaii, Maui, and Kauai intervener defendants.

The plaintiffs filed two motions for partial summary judgment (as to liability only), and the State filed a motion to dismiss and a motion for summary judgment against the claims of the plaintiffs as well as the ERS' trustees. The State's motion to dismiss was denied in an order filed on May 16, 2003. An order granting summary judgment in favor of the State and against all of the claims of the plaintiffs and ERS trustees, and denying the plaintiffs' two motions, and a final judgment were entered on June 24, 2003. The

county intervener defendants filed a motion to alter or amend the order and judgment on June 27, 2003. By court rule, the motion was deemed denied on September 25, 2003, and notices of appeal from the June 24, 2003 order and judgment were filed by plaintiffs and the ERS trustees on October 27, 2003. The State cross-appealed the order denying its motion to dismiss on November 7, 2003. On December 10, 2003, the circuit court entered an order granting the county intervener defendants motion to alter or amend the June 24, 2003 order and judgment, and filed an amended summary judgment order and an amended final judgment. The plaintiffs and the ERS trustees filed notices of appeal from the amended order and amended judgment on December 23, 2003. The appeals from the amended order and amended judgment were dismissed on April 30, 2004.

In a 3-2 decision filed on July 23, 2007, the Hawaii Supreme Court vacated the June 24, 2003 order and judgment, and remanded the case to the circuit court with instructions to (1) enter an order dismissing the plaintiffs' claims for lack of jurisdiction, (2) enter summary judgment against the State and in favor of the ERS' trustees on the trustees' declaratory judgment claim that Act 100 violated article XVI, section 2 of the Hawaii Constitution, and (3) dispose of the ERS' trustees' other claims for declaratory relief appropriately. In concluding that Act 100 was unconstitutional, the majority held that "necessarily implied in article XVI, section 2 [of the Hawaii Constitution] prohibiting impairment of accrued benefits is the protection of the sources of those benefits;…Act 100 retroactively divested the ERS of $346,900,000 of employer contributions for 1997, 1998, and 1999, thereby eliminating the sources used to fund constitutionally protected 'accrued benefits'; and…Act 100 undermined the retirement systems' continuing security and integrity." "[U]nder the circumstances of th[e] case," the court declined to issue the prospective injunction the ERS' trustees sought. (In their prayer for relief, the ERS' trustees asked that "the State and its officers and agents [be enjoined] from any further skimming the ERS' investment earnings and from taking any other or further action that (a) will diminish, impair or otherwise obligate the ERS' actuarial investment earnings; or (b) will reduce the Employers' periodic contributions as determined by the Board's actuary in accordance with the Chapter 88 and sound actuarial practice; or (c) otherwise will impair the contractual rights of the members.") The case is again before the circuit court to fashion the order the Supreme Court directed the circuit court to enter, and, if necessary, to address the ERS' trustees' remaining declaratory judgment claims. The State is unable to determine the outcome at this time.

Hawaii Employer-Union Health Benefits Trust Fund

In June 2006, certain retired public employees ("Plaintiffs") filed a purported class action in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the Hawaii Employer-Union Health Benefits Trust Fund (the "EUTF"), and the EUTF Board of Trustees (the "EUTF Board") (collectively, the "Defendants"). In relevant part, Plaintiffs' claimed that Defendants have violated their constitutional, contractual and statutory rights of Plaintiffs under article XVI, section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents. Under the doctrine of primary jurisdiction, Plaintiffs' action was held in abeyance so that the EUTF Board could decide certain issues raised by Plaintiffs' claims.

In May 2007, Plaintiffs filed a petition with the EUTF Board seeking a declaratory ruling as to whether, among other things, the Hawaii Constitution and HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are inferior (not equivalent) to those provided to active employees and their dependents. In September 2007, the EUTF Board held that (a) it did not have jurisdiction to decide the constitutional issues raised by Plaintiffs; (b) HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are different from and/or inferior to those

provided to active employees and their dependents; and (c) the EUTF health benefit plans from July 1, 2003, to present complied with the requirements of HRS Chapter 87A. Under HRS Section 91-14, Plaintiffs appealed the EUTF's Board's decision to the First Circuit Court. By order dated July 23, 2008, the circuit court reversed the decision of the EUTF Board. The circuit court's order held that (a) "accrued benefits" under article XVI, section 2 of the Hawaii Constitution, that may not be diminished or impaired, include retiree health benefits; (b) retiree health benefits established by the enactment of HRS Chapters 87 and 87A are protected and vested once accrued; (c) HRS Section 87A-23 requires retirees and their dependents to be provided with health benefits plans that provide benefits reasonably approximate to those provided to active employees and their dependents; and (d) certain of the health benefits provided to retirees and their dependents by the EUTF were not reasonably approximate to those provided to active employees and their dependents. The State and EUTF Board appealed the First Circuit Court's decision to the Hawaii Supreme Court. In a decision dated March 25, 2010, the Hawaii Supreme Court affirmed in part and reversed in part the First Circuit Court's decision. The Hawaii Supreme Court affirmed the First Circuit Court's holding that health benefits for retired state and county employee constitute "accrued benefits" pursuant to Article XVI, Section 2 of the Hawaii Constitution, but reversed the First Circuit Court's holding that HRS Chapter 87A (particularly HRS Section 87A-23) required that retiree health benefits reasonably approximate those provided to active employees. The Hawaii Supreme Court did not decide when retiree health benefits "accrued" so as to be protected under Article XVI, Section 2 of the Hawaii Constitution nor did it decide whether the enactment of any part of HRS Chapter 87A violated Article XVI, Section 2 of the Hawaii Constitution.

In December 2010, Plaintiffs filed a Second Amended Complaint again claiming that Defendants have violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapter 87 by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents. Plaintiffs added a new claim that retirees hired prior to July 1, 2001, are contractually entitled to participate in EUTF health plans without any premium contribution regardless of the contribution caps in HRS Section 87A-33 through 87A-36. Plaintiffs also claim that the EUTF was negligent in failing to provide retirees and their dependents with health benefits that were equivalent to those provided to active employees and their dependents and/or in failing to recognize or inform retirees that they could not be required to contribute money towards the premiums of their health care coverage despite the contribution caps in HRS Sections 87A-33 through 87A-36. Plaintiffs seek declaratory and injunctive relief and damages. The damages sought are the amounts that Plaintiffs and their class have personally paid for health care that should have been covered by their EUTF health plans, caused by their forgoing or delaying health care due to insufficient coverage that should have been covered by their EUTF health plans. In March 2011, the First Circuit Court orally granted Plaintiffs' motion to certify a class consisting of all individuals who began working for the Territory of Hawaii, State of Hawaii, or any political subdivision thereof, prior to July 1, 2003, and who qualify as a retired employee-beneficiary and/or whose dependent qualifies as a dependent-beneficiary as those terms are defined in HRS Sections 87A-1 and 87A-21. The parties are currently engaged in discovery. No trial date has yet been set. The State is vigorously contesting liability in this lawsuit.

Department of Education

Consolidated class action cases have been brought against the State Department of Education (DOE) on behalf of substitute teachers alleging that the DOE has failed to pay substitute teachers in accordance with the rate provided in the Hawaii Revised Statutes from July 1, 1996–June 30, 2005.

An adverse ruling against the State was made by the First Circuit Court on a motion for summary judgment regarding liability issues. The adverse ruling was the subject of an interlocutory appeal to the Intermediate Court of Appeals, which issued its ruling on October 30, 2009, affirming the adverse ruling. The Supreme Court denied certiorari on August 16, 2010 and the case was remanded to the Circuit Court for a determination of damages.

Because an adverse determination was made by the Circuit Court and upheld on appeal, liability against the State is probable. However, no determination has been made as to the amount of damages. The Plaintiff's estimate of damages in this case is approximately $30,000,000. However, this amount is disputed by the State and there has been no determination by the trial judge as to the amount of damages. Any determination by the trial judge is subject to appeal and would not be finalized unless and until the appeal process is completed.

13. RISK MANAGEMENT

The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is $225,000,000, except for flood and earthquake, which individually is a $225,000,000 aggregate loss and terrorism, which is $50,000,000 per occurrence and a $25,000 deductible.

The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage, which has a $100,000 limit per occurrence and a $1,000 deductible. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

General Liability (Including Torts)

Claims under $10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a $4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is $15,000,000 and for crime loss, $10,000,000 with no aggregate limit.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Medical Insurance

The State's community hospitals included in the HHSC are insured by a comprehensive hospital professional liability policy. The policy covers losses from personal injury, professional liability, patient property damage, and employee benefits. This policy covers losses up to a limit of $35,000,000 per occurrence and $39,000,000 in aggregate.

Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses.

Reserve for Losses and Loss Adjustment Costs

A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2012, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statement of net assets, as those losses will be liquidated with future expendable resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The following table represents changes in the amount of the estimated losses and the loss adjustment costs at June 30, 2012 (amounts expressed in thousands):

	2012	2011
Unpaid losses and loss adjustment costs — beginning of the fiscal year	$ 153,520	$ 151,712
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	43,517	32,110
Decrease in provision for insured events of prior fiscal years	(487)	(1,976)
Total incurred losses and loss adjustment costs	43,030	30,134
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(7,770)	(5,856)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	(18,880)	(22,470)
Total payments	(26,650)	(28,326)
Unpaid losses and loss adjustment costs — end of the fiscal year	$ 169,900	$ 153,520

14. SUBSEQUENT EVENTS

Auction Rate Securities Settlement

On August 2, 2012, Citi exercised its right, under the November 23, 2010 Settlement Agreement, to purchase $149.5 million of the State's investments in auction rate securities at par value. The auction rate securities purchased by Citi had a fair market value of $143.2 million at June 30, 2012.

On October 10, 2012, Citi exercised its right, under the November 23, 2010 Settlement Agreement, to purchase $88.3 million of the State's investments in auction rate securities at par value. The auction rate securities purchased by Citi had a fair market value of $85.2 million at June 30, 2012.

General Obligation Bonds

On December 4, 2012, the State issued $444 million General Obligation Bonds of 2012 Series EE, $396.99 million of General Obligation Refunding Bonds of 2012 Series EF, and $26 million in Taxable General Obligations Bonds of 2012 Series EG. The Refunding Bond proceeds were used to advance refund outstanding General Obligation Bonds previously issued.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

General Fund — Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis)

Med-Quest Special Revenue Fund — Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis)

Notes to Required Supplementary Information — Budgetary Control

Schedules of Funding Progress — EUTF

Schedules of Funding Progress — HSTA VEBA

Schedules of Funding Progress — UH

STATE OF HAWAII

GENERAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
General excise tax	$ 2,695,863	$ 2,623,348	$ 2,697,951	$ 74,603
Net income tax:				
Corporations	56,362	77,446	73,027	(4,419)
Individuals	1,547,406	1,456,113	1,540,730	84,617
Inheritance and estate tax	19,600	19,600	14,125	(5,475)
Liquor permits and tax	39,685	49,004	48,854	(150)
Public service companies tax	211,625	122,545	150,528	27,983
Tobacco tax	102,480	119,264	102,853	(16,411)
Tax on premiums of insurance companies	105,000	115,000	117,617	2,617
Franchise tax (banks and other financial institutions)	24,349	27,955	5,229	(22,726)
Transient accommodations tax	85,860	112,677	126,302	13,625
Other taxes, primarily conveyances tax	18,454	94,649	95,105	456
Total taxes	4,906,684	4,817,601	4,972,321	154,720
Non-taxes:				
Interest and investment income	10,297	10,268	4,740	(5,528)
Charges for current services	238,489	241,125	231,071	(10,054)
Intergovernmental	4,584	4,529	13,520	8,991
Rentals	630	588	360	(228)
Fines, forfeitures, and penalties	24,115	23,868	23,409	(459)
Licenses and fees	1,020	5,313	6,003	690
Revenues from private sources	16,153	25,180	25,297	117
Debt service requirements	38,720	38,720	40,469	1,749
Other	179,017	179,928	323,864	143,936
Total non-taxes	513,025	529,519	668,733	139,214
Total revenues	5,419,709	5,347,120	5,641,054	293,934
EXPENDITURES:				
General government	1,878,267	1,997,224	1,899,323	97,901
Public safety	243,161	239,982	237,852	2,130
Conservation of natural resources	25,551	24,131	20,735	3,396
Health	404,598	396,552	386,014	10,538
Hospitals	82,140	71,876	71,876	-
Welfare	1,041,243	1,043,040	1,032,498	10,542
Lower education	1,429,717	1,391,923	1,357,223	34,700
Higher education	386,307	378,689	376,108	2,581
Other education	5,088	5,009	4,819	190
Culture and recreation	39,216	38,044	37,231	813
Economic development and assistance	19,853	24,680	23,579	1,101
Housing	15,526	16,416	15,013	1,403
Other	-	13,669	6,053	7,616
Total expenditures	5,570,667	5,641,235	5,468,324	172,911
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(150,958)	(294,115)	172,730	466,845
OTHER FINANCING SOURCES — Transfers in	17,004	25,660	19,575	(6,085)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	$ (133,954)	$ (268,455)	$ 192,305	$ 460,760

STATE OF HAWAII

MED-QUEST SPECIAL REVENUE FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
Liquid fuel tax:				
Highways	$ -	$ -	$ -	$ -
Boating	-	-	-	-
Airports	-	-	-	-
Vehicle registration fee tax	-	-	-	-
State vehicle weight tax	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-
Employment and training fund assessment	-	-	-	-
General excise tax	-	-	-	-
Tobacco tax	-	-	-	-
Conveyances tax	-	-	-	-
Environmental response tax	-	-	-	-
Hospital and nursing facility tax	-	-	-	-
Transient accommodations tax	-	-	-	-
Franchise tax	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-
Total taxes	-	-	-	-
Non-taxes:				
Interest and investment income	-	-	-	-
Charges for current services	-	-	-	-
Intergovernmental	925,760	937,314	853,986	(83,328)
Rentals	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-
Licenses and fees	-	-	-	-
Revenues from private sources	-	-	-	-
Other	32,000	5,000	15,951	10,951
Total non-taxes	957,760	942,314	869,937	(72,377)
Total revenues	957,760	942,314	869,937	(72,377)
EXPENDITURES:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways	-	-	-	-
Conservation of natural resources	-	-	-	-
Health	-	-	-	-
Hospitals	-	-	-	-
Welfare	880,891	880,891	829,663	51,228
Lower education	-	-	-	-
Higher education	-	-	-	-
Other education	-	-	-	-
Culture and recreation	-	-	-	-
Urban redevelopment and housing	-	-	-	-
Economic development and assistance	-	-	-	-
Airports	-	-	-	-
Water transportation and terminals	-	-	-	-
Housing	-	-	-	-
Other	-	-	-	-
Total expenditures	880,891	880,891	829,663	51,228
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ 76,869	$ 61,423	$ 40,274	$ (21,149)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION — BUDGETARY CONTROL FOR THE YEAR ENDED JUNE 30, 2012

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the General Fund Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 2011 and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2009 — 2011 biennial budget.

The General Fund and Special Revenue Funds have legally appropriated annual budgets. The Capital Projects Fund's appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying General Fund Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 2012, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, the General Fund's appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund are presented in the General Fund statement of revenues and expenditures — budget and actual (budgetary basis). The State's annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase order and contract obligations (basis difference), which is a departure from GAAP.

STATE OF HAWAII

GENERAL FUND AND MED-QUEST SPECIAL REVENUE FUND
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2012
(Amounts in thousands)

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2012, follows (amounts expressed in thousands):

	General Fund	Med-Quest Special Revenue Fund
Excess of revenues and other sources over expenditures — actual (budgetary basis)	$ 192,305	$ 40,274
Transfers	-	(3,092)
Excess of revenues and over expenditures — actual (budgetary basis)	192,305	37,182
Reserve for encumbrances at fiscal year end *	272,519	29,938
Expenditures for liquidation of prior fiscal year encumbrances	(294,403)	(64,052)
Revenues and expenditures for unbudgeted programs and capital projects accounts — net	(1,971)	-
Tax refunds payable	17,135	-
Accrued liabilities	(10,392)	(59,123)
Accrued revenues	75,199	68,901
Net change in fund balance — GAAP basis	$ 250,392	$ 12,846

* Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

SCHEDULES OF FUNDING PROGRESS
(Amounts in millions)

PRIMARY GOVERNMENT:

EUTF

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$ 7,192	$ 7,192	- %	$ 1,782	403.6 %
July 1, 2009	-	11,523	11,523	-	1,432	804.8
July 1, 2011	-	11,706	11,706	-	2,093	559.2

HSTA-VEBA

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$ 1,579	$ 1,579	- %	$ 680	234.8 %
July 1, 2009	-	2,484	2,484	-	683	363.7

UH

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$ 1,136	$ 1,136	- %	$ 477	238.0 %
July 1, 2009	-	1,850	1,850	-	495	373.4
July 1, 2011	-	1,861	1,861	-	504	369.3

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. Certain Special Revenue Funds are presented separately in the accompanying combining financial statements, with the remainder grouped as a single entity. The Special Revenue Funds are as follows:

Highways — Accounts for programs related to maintaining and operating land transportation facilities.

Natural Resources — Accounts for programs related to the conservation, development, and utilization of agriculture, aquaculture, water, land, and other natural resources of the State.

Health — Accounts for programs related to mental health, nutrition services, communicable disease, and for other public health services.

Human Services — Accounts for social service programs, which include public welfare, eligibility and disability determination, and housing assistance.

Education — Accounts for programs related to instructional education, school food services, and student driver education.

Economic Development — Accounts for programs related to the development and promotion of industry and international commerce, energy development and management, economic research and analysis, and the utilization of resources.

Employment — Accounts for programs related to employment and training, disability compensation, placement services, and occupational safety and health.

Regulatory — Accounts for programs related to consumer protection, business registration, and cable television regulation.

Hawaiian Programs — Accounts for programs related to the betterment of the conditions of native Hawaiians.

Administrative Support — Accounts for programs of certain administrative agencies.

All Other — Accounts for programs related to water recreation, inmate stores, and driver training and education.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation bonds serviced by the General Fund and general obligation bonds and revenue bonds serviced by the Special Revenue Funds.

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
ASSETS							
CASH AND CASH EQUIVALENTS	$ 75,602	$ 45,498	$ 65,434	$ 19,835	$ 104,761	$ 9,989	$ 14,138
RECEIVABLES:							
Notes and loans — net	-	17,686	-	-	-	1,974	-
Other — Net	1,384	-	-	-	-	-	-
DUE FROM OTHER FUNDS	-	-	-	-	-	-	-
INVESTMENTS	90,495	54,983	79,045	24,236	89,025	12,016	17,108
TOTAL	$ 167,481	$ 118,167	$ 144,479	$ 44,071	$ 193,786	$ 23,979	$ 31,246
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Vouchers and contracts payable	$ 24,696	$ 9,433	$ 10,384	$ 3,886	$ 14,410	$ 2,851	$ 6,409
Other accrued liabilities	4,024	2,717	26,120	380	10,847	1,060	1,589
Due to federal government	-	-	-	22,014	-	-	-
Due to other funds	-	-	-	12,800	-	-	-
Payable from restricted assets — matured bonds and interest payable	-	-	-	-	-	-	-
Total liabilities	28,720	12,150	36,504	39,080	25,257	3,911	7,998
FUND BALANCES:							
Restricted	-	-	-	-	-	-	-
Committed	-	91,105	129,560	-	-	18,390	18,014
Assigned	138,761	14,912	-	4,991	168,529	1,678	5,234
Unassigned	-	-	(21,585)	-	-	-	-
Total fund balances	138,761	106,017	107,975	4,991	168,529	20,068	23,248
TOTAL	$ 167,481	$ 118,167	$ 144,479	$ 44,071	$ 193,786	$ 23,979	$ 31,246

Special Revenue Funds						
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Total Nonmajor Governmental Funds
$ 20,629	$ 98,678	$ 57,727	$ 20,361	$ 532,652	$ 348	$ 533,000
-	57,007	-	-	76,667	-	76,667
-	-	-	-	1,384	-	1,384
-	-	-	-	-	64	64
24,925	115,746	56,839	24,773	589,191	-	589,191
$ 45,554	$ 271,431	$ 114,566	$ 45,134	$ 1,199,894	$ 412	$ 1,200,306
$ 1,094	$ 4,209	$ 2,250	$ 4,143	$ 83,765	$ -	$ 83,765
1,698	435	2,925	1,748	53,543	-	53,543
-	-	-	-	22,014	-	22,014
-	-	-	1,905	14,705	-	14,705
-	-	-	-	-	348	348
2,792	4,644	5,175	7,796	174,027	348	174,375
-	45	-	-	45	64	109
35,167	158,498	67,640	-	518,374	-	518,374
7,595	108,244	41,751	37,338	529,033	-	529,033
-	-	-	-	(21,585)	-	(21,585)
42,762	266,787	109,391	37,338	1,025,867	64	1,025,931
$ 45,554	$ 271,431	$ 114,566	$ 45,134	$ 1,199,894	$ 412	$ 1,200,306

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
REVENUES:							
Taxes:							
Franchise tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other tax revenue	-	16,592	1,315	-	-	3,944	1,223
Transient accommodations tax	-	1,000	-	-	-	-	-
Tobacco and liquor taxes	-	-	16,828	-	-	-	-
Liquid fuel tax	86,980	250	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-	-
Vehicle weight and registration tax	92,990	-	5,197	-	-	-	-
Rental motor/tour vehicle surcharge tax	44,987	-	-	-	-	-	-
Total taxes	224,957	17,842	23,340	-	-	3,944	1,223
Interest and investment income	479	738	24	2	93	24	37
Charges for current services	2,222	25,604	29,218	210	41,229	5,099	17,054
Intergovernmental	145,325	21,562	138,136	624,398	275,977	26,159	47,318
Rentals	1,000	8,518	-	-	375	1,348	-
Fines, forfeitures, and penalties	2,010	133	2,280	-	-	-	1,270
Licenses and fees	2,047	525	841	71	1,294	-	-
Revenues from private sources	-	2	25,569	2	9,774	-	-
Other	13,353	3,304	2,342	1,663	52,908*	203	2,056
Total revenues	391,393	78,228	221,750	626,346	381,650	36,777	68,958
EXPENDITURES:							
Current:							
General government	-	4,110	176	-	-	-	-
Public safety	-	2,905	-	-	-	-	2,010
Conservation of natural resources	-	61,298	-	-	-	-	-
Health	-	-	204,414	-	-	-	-
Welfare	-	-	-	609,614	-	-	-
Lower education	-	-	-	-	397,245	-	-
Other education	-	-	-	11,209	-	-	-
Culture and recreation	-	8,993	-	-	3,367	-	-
Urban redevelopment and housing	-	-	-	2,758	-	-	-
Economic development and assistance	-	4,468	-	1,189	-	37,200	66,045
Other	-	3	-	-	-	-	-
Highways	236,392	106	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Total expenditures	236,392	81,883	204,590	624,770	400,612	37,200	68,055
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	155,001	(3,655)	17,160	1,576	(18,962)	(423)	903
OTHER FINANCING SOURCES (USES):							
Issuance of GO and refunding GO bonds - par	-	-	-	-	-	-	-
Issuance of GO and refunding GO bonds - premium	-	-	-	-	-	-	-
Issuance of revenue and refunding revenue bonds - par	-	-	-	-	-	-	-
Issuance of revenue and refunding revenue bonds - premiu	-	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	-	-
Transfers in	57	3,204	741	3,218	89,030	212	141
Transfers out	(197,138)	(2,989)	(5,016)	(28,299)	(4)	(2,313)	(298)
Total other financing (uses) sources	(197,081)	215	(4,275)	(25,081)	89,026	(2,101)	(157)
NET CHANGE IN FUND BALANCES	(42,080)	(3,440)	12,885	(23,505)	70,064	(2,524)	746
FUND BALANCES — Beginning of year	180,841	109,457	95,090	28,496	98,465	22,592	22,502
FUND BALANCES — End of year	$ 138,761	$106,017	$107,975	$ 4,991	$168,529	$ 20,068	$ 23,248

* Other revenues in the Education Special Revenue Fund include approximately $36 million of excess revenues over expenditures from prior periods related to Hawaii State Public Charter Schools which was not previously reported.

Special Revenue Funds					Debt		Total Nonmajor
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Service Fund	Eliminations	Governmental Funds
$ 2,000	$ -	$ -	$ -	$ 2,000	$ -	$ -	$ 2,000
-	-	-	-	23,074	-	-	23,074
-	-	-	-	1,000	-	-	1,000
-	-	2,289	-	19,117	-	-	19,117
-	-	-	1,612	88,842	-	-	88,842
1,855	-	-	-	1,855	-	-	1,855
-	-	-	-	98,187	-	-	98,187
-	-	-	-	44,987	-	-	44,987
3,855	-	2,289	1,612	279,062	-	-	279,062
108	5,391	75	67	7,038	-	-	7,038
17,202	3,509	53,474	21,582	216,403	-	-	216,403
-	4,201	55,514	67,026	1,405,616	-	-	1,405,616
-	12,503	(1,452)	2,769	25,061	-	-	25,061
3,354	-	253	2,374	11,674	-	-	11,674
17,418	-	17,833	358	40,387	-	-	40,387
-	3,000	1,438	3	39,788	-	-	39,788
83	13,077	5,616	6,318	100,923	-	-	100,923
42,020	41,681	135,040	102,109	2,125,952	-	-	2,125,952
-	-	35,274	15,210	54,770	-	-	54,770
37,323	-	22,536	61,936	126,710	-	-	126,710
-	-	504	-	61,802	-	-	61,802
-	-	-	-	204,414	-	-	204,414
-	-	11,256	550	621,420	-	-	621,420
-	-	6,486	-	403,731	-	-	403,731
-	-	-	-	11,209	-	-	11,209
-	-	12,092	18,938	43,390	-	-	43,390
-	44,010	344	-	47,112	-	-	47,112
-	1,106	383	-	110,391	-	-	110,391
-	-	5,786	90	5,879	-	-	5,879
-	7,119	3	-	243,620	-	-	243,620
-	-	-	-	-	587,760	-	587,760
37,323	52,235	94,664	96,724	1,934,448	587,760	-	2,522,208
4,697	(10,554)	40,376	5,385	191,504	(587,760)	-	(396,256)
-	-	-	-	-	486,230	-	486,230
-	-	-	-	-	74,009	-	74,009
-	-	-	-	-	5,095	-	5,095
-	-	-	-	-	467	-	467
-	-	-	-	-	(565,801)	-	(565,801)
4,881	30,000	18,960	10,659	161,103	587,715	-	748,818
(3,160)	(3,425)	(50,951)	(3,495)	(297,088)	-	-	(297,088)
1,721	26,575	(31,991)	7,164	(135,985)	587,715	-	451,730
6,418	16,021	8,385	12,549	55,519	(45)	-	55,474
36,344	250,766	101,006	24,789	970,348	109	-	970,457
$42,762	$266,787	$109,391	$ 37,338	$1,025,867	$ 64	$ -	$1,025,931

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Highways			Natural Resources		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	88,104	86,980	(1,124)	230	250	20
Boating	-	-	-	-	-	-
Vehicle registration fee tax	21,577	34,311	12,734	-	-	-
State vehicle weight tax	34,676	58,679	24,003	-	-	-
Rental/tour vehicle surcharge tax	30,852	44,987	14,135	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	11,300	12,648	1,348
Environmental response tax	-	-	-	-	3,944	3,944
Transient accommodations tax	-	-	-	1,000	1,000	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	175,209	224,957	49,748	12,530	17,842	5,312
Non-taxes:						
Interest and investment income	12,000	1,186	(10,814)	1,248	917	(331)
Charges for current services	79,931	2,222	(77,709)	23,842	25,548	1,706
Intergovernmental	37,702	48,660	10,958	12,249	21,469	9,220
Rentals	-	1,000	1,000	2,880	8,518	5,638
Fines, forfeitures, and penalties	1,408	2,010	602	38	133	95
Licenses and fees	1,716	2,047	331	482	525	43
Revenues from private sources	-	-	-	1	2	1
Other	37	54,108	54,071	3,049	4,002	953
Total non-taxes	132,794	111,233	(21,561)	43,789	61,114	17,325
Total revenues	308,003	336,190	28,187	56,319	78,956	22,637
EXPENDITURES:						
General government	-	-	-	4,248	3,994	254
Public safety	-	-	-	7,513	2,741	4,772
Highways	293,703	241,489	52,214	-	-	-
Conservation of natural resources	-	-	-	101,989	63,871	38,118
Health	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	14,630	9,197	5,433
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	7,638	2,275	5,363
Other	210	-	210	-	-	-
Total expenditures	293,913	241,489	52,424	136,018	82,078	53,940
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ 14,090	$ 94,701	$ 80,611	$ (79,699)	$ (3,122)	$ 76,577

Health			Human Services		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
5,139	5,197	58	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
17,985	16,828	(1,157)	-	-	-
-	-	-	-	-	-
1,341	1,315	(26)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
24,465	23,340	(1,125)	-	-	-
431	368	(63)	-	5	5
81,137	81,264	127	-	210	210
111,953	125,219	13,266	219,483	177,477	(42,006)
-	-	-	-	-	-
1,097	2,280	1,183	-	-	-
817	841	24	406	71	(335)
39,856	25,569	(14,287)	-	2	2
131	2,489	2,358	-	2,137	2,137
235,422	238,030	2,608	219,889	179,902	(39,987)
259,887	261,370	1,483	219,889	179,902	(39,987)
196	178	18	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
372,510	264,807	107,703	-	-	-
-	-	-	-	-	-
-	-	-	270,890	171,675	99,215
-	-	-	-	-	-
-	-	-	24,138	12,405	11,733
-	-	-	-	-	-
-	-	-	3,939	3,924	15
-	-	-	1,225	1,189	36
-	-	-	-	-	-
372,706	264,985	107,721	300,192	189,193	110,999
$(112,819)	$ (3,615)	$ 109,204	$ (80,303)	$ (9,291)	$ 71,012

(Continued)

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Education			Economic Development		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	-	-	-	-	-	-
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-		3,944	3,944
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	-	3,944	3,944
Non-taxes:						
Interest and investment income	335	141	(194)	150	95	(55)
Charges for current services	35,030	41,212	6,182	8,823	5,099	(3,724)
Intergovernmental	221,906	265,761	43,855	32,814	26,159	(6,655)
Rentals	40	375	335	2,247	1,348	(899)
Fines, forfeitures, and penalties	-	-	-	-	-	-
Licenses and fees	732	1,294	562	-	-	-
Revenues from private sources	367	128	(239)	200	-	(200)
Other	52,765	14,807	(37,958)	17	517	500
Total non-taxes	311,175	323,718	12,543	44,251	33,218	(11,033)
Total revenues	311,175	323,718	12,543	44,251	37,162	(7,089)
EXPENDITURES:						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	621,858	338,852	283,006	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	4,490	3,051	1,439	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	74,833	24,657	50,176
Other	-	-	-	-	-	-
Total expenditures	626,348	341,903	284,445	75,933	24,657	51,276
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (315,173)	$ (18,185)	$ 296,988	$ (31,682)	$ 12,505	$ 44,187

Employment			Regulatory		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
450	1,223	773	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,000	2,000	-
-	-	-	1,300	1,855	555
450	1,223	773	3,300	3,855	555
230	101	(129)	632	214	(418)
18,000	17,054	(946)	19,358	17,202	(2,156)
46,160	47,318	1,158	2,250	1,961	(289)
-	-	-	-	-	-
300	1,270	970	985	3,354	2,369
-	-	-	12,902	15,456	2,554
-	-	-	-	-	-
6	3,420	3,414	3,003	5,364	2,361
64,696	69,163	4,467	39,130	43,551	4,421
65,146	70,386	5,240	42,430	47,406	4,976
-	-	-	-	-	-
2,840	2,010	830	73,530	40,835	32,695
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
133,413	63,291	70,122	2,021	1,962	59
-	-	-	-	-	-
136,253	65,301	70,952	75,551	42,797	32,754
$ (71,107)	$ 5,085	$ 76,192	$ (33,121)	$ 4,609	$ 37,730

(Continued)

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Hawaiian Programs			Administrative Support		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	-	-	-	-	-	-
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	1,752	2,289	537
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	1,752	2,289	537
Non-taxes:						
Interest and investment income	610	386	(224)	667	240	(427)
Charges for current services	1	77	76	44,155	53,474	9,319
Intergovernmental	8,000	4,188	(3,812)	18,772	55,514	36,742
Rentals	9,083	12,095	3,012	6,235	6,460	225
Fines, forfeitures, and penalties	-	-	-	303	253	(50)
Licenses and fees	-	-	-	15,958	17,833	1,875
Revenues from private sources	-	3,000	3,000	1,850	1,438	(412)
Other	4,660	5,232	572	13,031	7,437	(5,594)
Total non-taxes	22,354	24,978	2,624	100,971	142,649	41,678
Total revenues	22,354	24,978	2,624	102,723	144,938	42,215
EXPENDITURES:						
General government	-	-	-	80,690	45,845	34,845
Public safety	-	-	-	30,710	23,963	6,747
Highways	-	-	-	47	47	-
Conservation of natural resources	-	-	-	636	322	314
Health	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-
Welfare	-	-	-	15,778	11,212	4,566
Lower education	-	-	-	7,000	6,484	516
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	15,235	10,917	4,318
Urban redevelopment and housing	43,683	24,833	18,850	-	-	-
Economic development and assistance	-	-	-	406	385	21
Other	-	-	-	17,051	6,098	10,953
Total expenditures	43,683	24,833	18,850	167,553	105,273	62,280
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (21,329)	$ 145	$ 21,474	$ (64,830)	$ 39,665	$104,495

All Other			Total Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	88,334	87,230	(1,104)
1,500	1,612	112	1,500	1,612	112
-	-	-	26,716	39,508	12,792
-	-	-	34,676	58,679	24,003
-	-	-	30,852	44,987	14,135
-	-	-	450	1,223	773
-	-	-	1,752	2,289	537
-	-	-	29,285	29,476	191
-	-	-	-	7,888	7,888
-	-	-	2,341	2,315	(26)
-	-	-	2,000	2,000	-
-	-	-	1,300	1,855	555
1,500	1,612	112	219,206	279,062	59,856
276	109	(167)	16,579	3,762	(12,817)
17,400	21,583	4,183	327,677	264,945	(62,732)
24,350	67,025	42,675	735,639	840,751	105,112
2,000	2,769	769	22,485	32,565	10,080
2,403	2,373	(30)	6,534	11,673	5,139
510	357	(153)	33,523	38,424	4,901
35	2	(33)	42,309	30,141	(12,168)
7,820	16,705	8,885	84,519	116,218	31,699
54,794	110,923	56,129	1,269,265	1,338,479	69,214
56,294	112,535	56,241	1,488,471	1,617,541	129,070
18,539	14,820	3,719	103,673	64,837	38,836
138,699	72,931	65,768	254,392	142,480	111,912
-	-	-	293,750	241,536	52,214
-	-	-	102,625	64,193	38,432
-	-	-	372,510	264,807	107,703
-	-	-	-	-	-
550	549	1	287,218	183,436	103,782
-	-	-	628,858	345,336	283,522
-	-	-	24,138	12,405	11,733
18,107	12,983	5,124	52,462	36,148	16,314
-	-	-	47,622	28,757	18,865
-	-	-	219,536	93,759	125,777
-	-	-	17,261	6,098	11,163
175,895	101,283	74,612	2,404,045	1,483,792	920,253
$ (119,601)	$ 11,252	$ 130,853	$ (915,574)	$ 133,749	$ 1,049,323

(Concluded)

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2012
(Amounts in thousands)

EXCESS OF REVENUES OVER EXPENDITURES — Actual (budgetary basis)	$ 133,749
RESERVE FOR ENCUMBRANCES AT YEAR-END*	279,362
EXPENDITURES FOR LIQUIDATION OF PRIOR FISCAL YEAR ENCUMBRANCES	(388,221)
EXPENDITURES FOR UNBUDGETED PROGRAMS, PRINCIPALLY EXPENDITURES FOR CAPITAL PROJECTS ACCOUNTS AND REVOLVING FUNDS	(17,366)
EXPENDITURES FOR DEBT SERVICE PAID OUT OF OTHER GOVERNMENTAL FUNDS	(587,760)
TRANSFERS	151,755
ACCRUED LIABILITIES	(424,670)
ACCRUED REVENUES	456,895
DEFICIENCY OF REVENUES UNDER EXPENDITURES — GAAP basis	$ (396,256)

* Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ -	$ 107,108	$ 45,684	$ 152,792
Receivables:				
Accounts and accrued interest (net of allowance for doubtful accounts of $0)	32	744	90	866
Promissory note receivable (net of allowance for doubtful accounts of $0)	-	29,834	5,054	34,888
Federal government	-	-	240	240
Premiums	32,788	-	-	32,788
Other	2,103	404	684	3,191
Prepaid expenses and other assets	16,710	-	-	16,710
Total current assets	51,633	138,090	51,752	241,475
CAPITAL ASSETS				
Equipment	13,760	78	1,237	15,075
	13,760	78	1,237	15,075
Less accumulated depreciation	(7,578)	(41)	(968)	(8,587)
Net capital assets	6,182	37	269	6,488
Promissory note receivable	-	294,648	69,103	363,751
Other	-	9,617	5,843	15,460
Total noncurrent assets	6,182	304,302	75,215	385,699
TOTAL ASSETS	$ 57,815	$ 442,392	$ 126,967	$ 627,174

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
LIABILITIES				
CURRENT LIABILITIES:				
Vouchers and contracts payable	$ 432	$ 69	$ 201	$ 702
Other accrued liabilities	1,633	-	-	1,633
Accrued vacation, current portion	64	72	34	170
Benefits claims payable	7,486	-	-	7,486
Premiums payable	38,974	-	-	38,974
Total current liabilities	48,589	141	235	48,965
NONCURRENT LIABILITIES:				
Accrued vacation	187	213	99	499
Other postemployment benefit liability	1,054	844	328	2,226
TOTAL	49,830	1,198	662	51,690
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	6,182	37	269	6,488
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	-	441,157	126,036	567,193
UNRESTRICTED	1,803	-	-	1,803
TOTAL NET ASSETS	$ 7,985	$ 441,194	$ 126,305	$ 575,484

(Concluded)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
OPERATING REVENUES:				
Administrative fees	$ 5,855	$ 1,777	$ 2,421	$ 10,053
Premium revenue — self insurance	152,435	-	-	152,435
Other	2,773	2,905	275	5,953
Total operating revenues	161,063	4,682	2,696	168,441
OPERATING EXPENSES:				
Personnel services	2,460	1,596	947	5,003
Depreciation	1,050	3	97	1,150
Repairs and maintenance	6	1	77	84
General administration	2,274	126	1,775	4,175
Claims	150,489	-	-	150,489
Other	861	67	23	951
Total operating expenses	157,140	1,793	2,919	161,852
Operating income	3,923	2,889	(223)	6,589
NONOPERATING REVENUES (EXPENSE):				
Interest and investment income	270	155	147	572
Other	5,975	-	(13,289)	(7,314)
Total nonoperating revenues (expenses)	6,245	155	(13,142)	(6,742)
INCOME BEFORE CAPITAL CONTRIBUTIONS	10,168	3,044	(13,365)	(153)
CAPITAL CONTRIBUTIONS:	-	8,811	8,356	17,167
CHANGE IN NET ASSETS	10,168	11,855	(5,009)	17,014
NET ASSETS — Beginning of year	(2,183)	429,339	131,314	558,470
				-
NET ASSETS — End of year	$ 7,985	$ 441,194	$ 126,305	$ 575,484

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from employer and employee for premium and benefit payments	$ 500,858	$ -	$ -	$ 500,858
Cash paid to suppliers	(2,169)	(191)	(2,048)	(4,408)
Cash paid to employees	(2,142)	(1,418)	(826)	(4,386)
Cash paid for premiums and benefit payments	(510,786)	-	-	(510,786)
Reserves returned by insurance carriers	(2,261)	-	-	(2,261)
Interest income from notes receivable	-	2,895	284	3,179
Administrative loan fees	-	1,757	2,491	4,248
Principal repayments on notes receivable	-	27,615	5,075	32,690
Disbursement of notes receivable proceeds	-	(48,510)	(3,353)	(51,863)
Net cash provided by (used in) operating activities	(16,500)	(17,852)	1,623	(32,729)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State capital contributions	-	3,157	2,715	5,872
Proceeds from federal operating grants	-	24,918	5,544	30,462
Disbursement of federal operating grant	-	(7,240)	(789)	(8,029)
Other	5,975	-	-	5,975
Net cash provided by noncapital financing activities	5,975	20,835	7,470	34,280
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES - Acquisition and construction of capital assets	(15)	(40)	(32)	(87)
CASH FLOWS FROM INVESTING ACTIVITIES — Interest received and loss from investments	335	226	161	722
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,205)	3,169	9,222	2,186
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year	10,205	103,939	36,462	150,606
CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year	$ -	$ 107,108	$ 45,684	$ 152,792

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income	$ 3,923	$ 2,889	$ (223)	$ 6,589
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	1,050	3	97	1,150
Premium reserves held by insurance companies	(2,288)	-	-	(2,288)
Principal forgiveness of loan	-	(2,000)	-	(2,000)
Increase in assets:				-
Receivables	(362)	(18,923)	1,800	(17,485)
Deposits	(4,958)	-	-	(4,958)
Increase in liabilities:				
Vouchers and contracts payable	112	(44)	(178)	(110)
Other accrued liabilities	20,037	223	127	20,387
Accrued interest on loans receivable	(34,014)	-	-	(34,014)
Net cash provided by (used in) operating activities	$ (16,500)	$ (17,852)	$ 1,623	$ (32,729)

(Concluded)

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS — AGENCY FUNDS
JUNE 30, 2012
(Amounts in thousands)

	Agency Funds			Total
	Tax Collections	Custodial	Other	Total Agency Funds
ASSETS				
CASH AND CASH EQUIVALENTS	$ 5,541	$ 443,341	$ 29,582	$ 478,464
RECEIVABLES — taxes	-	-	33,444	33,444
INVESTMENTS	6,772	42,660	43,100	92,532
OTHER ASSETS - primarily due from individuals, businesses, and counties	46,169	48,378	-	94,547
TOTAL ASSETS	$ 58,482	$ 534,379	$ 106,126	$ 698,987
LIABILITIES				
VOUCHERS PAYABLE	$ 58,482	$ 74	$ 65	$ 58,621
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	-	534,305	106,061	640,366
TOTAL LIABILITIES	$ 58,482	$ 534,379	$ 106,126	$ 698,987

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Balance — July 1, 2011	Additions	Deductions	Balance — June 30, 2012
TAX COLLECTIONS:				
Assets:				
Cash and cash equivalents	$ 11,983	$ 7,146,487	$ (7,152,929)	$ 5,541
Due from individuals, businesses, and counties	35,006	7,157,649	(7,146,486)	46,169
Investments	19,551	6,772	(19,551)	6,772
Total assets	$ 66,540	$ 14,310,908	$ (14,318,966)	$ 58,482
Liabilities:				
Vouchers payable	$ 66,540	$ 58,482	$ (66,540)	$ 58,482
Due to individuals, businesses, and counties	-	-	-	-
Total liabilities	$ 66,540	$ 58,482	$ (66,540)	$ 58,482
CUSTODIAL:				
Assets:				
Cash and cash equivalents	$ 350,959	$ 4,243,963	$ (4,151,581)	$ 443,341
Due from individuals, businesses, and counties	48,055	433,168	(432,845)	48,378
Investments	33,852	42,660	(33,852)	42,660
Total assets	$ 432,866	$ 4,719,791	$ (4,618,278)	$ 534,379
Liabilities:				
Vouchers payable	$ 437	$ 74	$ (437)	$ 74
Due to individuals, businesses, and counties	432,429	4,325,900	(4,224,024)	534,305
Total liabilities	$ 432,866	$ 4,325,974	$ (4,224,461)	$ 534,379
OTHER:				
Assets:				
Cash and cash equivalents	$ 28,724	$ 33,480	$ (32,622)	$ 29,582
Receivables	8,584	33,444	(8,584)	33,444
Investments	56,858	43,102	(56,860)	43,100
Total assets	$ 94,166	$ 110,026	$ (98,066)	$ 106,126
Liabilities:				
Vouchers payable	$ 4,380	$ 65	$ (4,380)	$ 65
Due to individuals, businesses, and counties	89,786	58,340	(42,065)	106,061
Total liabilities	$ 94,166	$ 58,405	$ (46,445)	$ 106,126
TOTAL — All agency funds:				
Assets:				
Cash and cash equivalents	$ 391,666	$ 11,423,930	$ (11,337,132)	$ 478,464
Receivables	8,584	33,444	(8,584)	33,444
Due from individuals, businesses, and counties	83,061	7,590,817	(7,579,331)	94,547
Investments	110,261	92,534	(110,263)	92,532
Total assets	$ 593,572	$ 19,140,725	$ (19,035,310)	$ 698,987
Liabilities:				
Vouchers payable	$ 71,357	$ 58,621	$ (71,357)	$ 58,621
Due to individuals, businesses, and counties	522,215	4,384,240	(4,266,089)	640,366
Total liabilities	$ 593,572	$ 4,442,861	$ (4,337,446)	$ 698,987

PART III: STATISTICAL SECTION

STATISTICAL SECTION ("UNAUDITED")

This Part of the State's comprehensive annual financial report presents detailed information as a context for understanding the information in the financial statements, note disclosures, and required supplementary information on the State's overall financial health.

Contents	**Page**
Financial Trends: These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.	140
Revenue Capacity: These schedules contain information to help the reader assess the State's most significant local revenue sources, the general excise tax, and net income tax.	144
Debt Capacity: These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.	149
Demographic and Economic Information: These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.	153
Operating Information: These schedules contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services provided and the activities performed by the State.	156

Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The State implemented GASB Statement No. 34 in 2002; schedules presenting Government-Wide information include information beginning in that year.*

STATE OF HAWAII

NET ASSETS BY COMPONENT (ACCRUAL BASIS OF ACCOUNTING)
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2012	2011	2010	2009	2008
Governmental Activities:					
Invested in capital assets, net of related debt	$ 2,794,481	$ 3,326,245	$ 3,118,606	$ 3,298,144	$ 3,987,244
Restricted	930,294	917,730	655,238	641,031	909,877
Unrestricted	(2,394,874)	(2,384,187)	(1,306,716)	(471,543)	121,480
Total governmental activities net assets	$ 1,329,901	$ 1,859,788	$ 2,467,128	$ 3,467,632	$ 5,018,601
Business-Type Activities:					
Invested in capital assets, net of related debt	$ 1,560,267	$ 1,476,136	$ 1,469,676	$ 1,527,018	$ 1,458,305
Restricted	966,042	956,894	922,846	782,569	730,061
Unrestricted	649,583	579,383	493,163	597,624	1,013,447
Total business-type activities net assets	$ 3,175,892	$ 3,012,413	$ 2,885,685	$ 2,907,211	$ 3,201,813
Primary Government:					
Invested in capital assets, net of related debt	$ 4,354,748	$ 4,802,381	$ 4,588,282	$ 4,825,162	$ 5,445,549
Restricted	1,896,336	1,874,624	1,578,084	1,423,600	1,639,938
Unrestricted	(1,745,291)	(1,804,804)	(813,553)	126,081	1,134,927
Total primary government net sssets	$ 4,505,793	$ 4,872,201	$ 5,352,813	$ 6,374,843	$ 8,220,414

STATE OF HAWAII

CHANGES IN NET ASSETS (ACCRUAL BASIS OF ACCOUNTING)
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2012	2011	2010	2009	2008
Expenses:					
Governmental activities:					
General government	$ 552,788	$ 535,434	$ 421,327	$ 564,356	$ 548,439
Public safety	502,002	471,459	538,110	464,897	414,463
Highways	516,924	450,548	466,322	487,391	490,754
Conservation of natural resources	96,349	89,021	81,561	119,705	74,411
Health	773,288	816,525	858,476	843,826	895,413
Welfare	2,464,582	2,553,829	2,348,190	2,140,202	1,877,188
Lower education	2,598,444	2,545,980	2,616,768	2,656,592	2,385,056
Higher education	672,716	707,381	700,335	878,126	815,116
Other education	16,753	14,018	14,034	29,935	23,206
Culture and recreation	111,628	108,697	108,247	106,583	107,676
Urban redevelopment and housing	23,888	66,144	101,505	145,710	187,861
Economic development and assistance	209,460	238,315	209,611	158,808	157,421
Interest expense	243,938	239,836	210,243	127,576	140,032
Total governmental activities expenses	8,782,760	8,837,187	8,674,729	8,723,707	8,117,036
Business-type activities:					
Airports	353,541	354,368	336,127	347,089	354,554
Harbors	84,826	80,355	68,291	124,611	80,344
Unemployment compensation	468,610	561,548	686,141	437,553	159,098
Nonmajor proprietary fund	169,166	250,346	256,205	38,672	22,619
Total business-type activities expenses	1,076,143	1,246,617	1,346,764	947,925	616,615
Total Primary Government Expenses	$ 9,858,903	$10,083,804	$10,021,493	$ 9,671,632	$ 8,733,651
Program Revenues:					
Governmental activities					
Charges for services:					
General government	$ 266,878	$ 270,078	$ 231,629	$ 206,431	$ 203,336
Health	32,339	46,215	98,547	99,788	102,032
Other	121,928	112,479	111,295	119,126	101,390
Operating grants and contributions	2,370,437	2,837,464	2,598,141	2,260,551	1,887,298
Capital grants and contributions	97,322	132,825	144,445	145,771	130,643
Total governmental activities program revenues	2,888,904	3,399,061	3,184,057	2,831,667	2,424,699
Business-type activities —					
Charges for services:					
Airports	343,279	387,484	324,577	290,464	266,820
Unemployment	533,963	535,243	486,476	169,976	87,486
Others	272,317	341,707	344,889	84,692	95,013
Capital grants and contributions	85,899	75,324	98,099	103,195	81,967
Total business-type activities program revenues	1,235,458	1,339,758	1,254,041	648,327	531,286
Total Primary Government Program Revenues	$ 4,124,362	$ 4,738,819	$ 4,438,098	$ 3,479,994	$ 2,955,985
Net (Expense) Revenue:					
Governmental activities	$ (5,893,856)	$ (5,438,126)	$ (5,490,672)	$(5,892,040)	$(5,692,337)
Business-type activities	159,315	93,141	(92,723)	(299,598)	(85,329)
Total Primary Government Net Expenses	$ (5,734,541)	$ (5,344,985)	$ (5,583,395)	$(6,191,638)	$(5,777,666)
General Revenues and Other Changes in Net Assets:					
Governmental activities					
Taxes:					
General excise tax	$ 2,774,636	$ 2,507,980	$ 2,279,310	$ 2,410,756	$ 2,597,121
Net income tax — corporations and individuals	1,633,085	1,477,624	1,408,965	1,366,576	1,634,117
Public service companies tax	150,528	117,940	157,661	126,069	127,481
Transient accommodations tax	138,529	60,839	32,635	14,408	17,756
Tobacco and liquor taxes	170,824	173,851	149,596	135,388	134,886
Liquid fuel tax	88,842	91,265	82,780	88,006	90,123
Tax on premiums of insurance companies	119,472	140,586	105,848	95,181	96,332
Vehicle weight and registration tax	98,187	59,476	58,659	59,392	60,842
Rental motor/tour vehicle surcharge tax	106,417	43,892	40,401	39,751	49,196
Franchise tax	7,229	33,682	20,666	28,075	20,213
Others	70,873	67,799	32,165	19,215	26,149
Interest and investment income	5,347	55,852	124,516	(42,051)	112,024
Other	-	-	(3,034)	305	106
Total governmental activities	5,363,969	4,830,786	4,490,168	4,341,071	4,966,346
Business-type activities:					
Interest and investment income	4,164	33,587	68,950	4,639	48,893
Other	-	-	-	-	-
Total business-type activities	4,164	33,587	68,950	4,639	48,893
Total Primary Government	$ 5,368,133	$ 4,864,373	$ 4,559,118	$ 4,345,710	$ 5,015,239
Changes in Net Assets:					
Governmental activities	$ (529,887)	$ (607,340)	$ (1,000,504)	$(1,550,969)	$ (725,991)
Business-type activities	163,479	126,728	(23,773)	(294,959)	(36,436)
Total Primary Government	$ (366,408)	$ (480,612)	$ (1,024,277)	$(1,845,928)	$ (762,427)

STATE OF HAWAII

FUND BALANCES, GOVERNMENTAL FUNDS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2012	2011	2010	2009	2008
General Fund:					
Reserved	N/A	N/A	$ 243,485	$ 272,557	$ 406,884
Unreserved	N/A	N/A	(210,551)	(87,537)	567,474
Total General Fund	N/A	N/A	$ 32,934	$ 185,020	$ 974,358
All Other Governmental Funds:					
Reserved	N/A	N/A	$ 2,275,968	$ 2,801,012	$ 2,344,961
Unreserved, reported in:					
Capital Projects Fund	N/A	N/A	(1,651,855)	(2,019,696)	(1,788,357)
Special Revenue Funds	N/A	N/A	293,625	255,844	410,265
Total All Other Governmental Funds	N/A	N/A	$ 917,738	$ 1,037,160	$ 966,869
General Fund (Under GASB 54):					
Assigned Fund Balance	$ 236,779	$ 210,164	N/A	N/A	N/A
Unassigned Fund Balance	570,659	346,882	N/A	N/A	N/A
Total General Fund	$ 807,438	$ 557,046	N/A	N/A	N/A
All Other Governmental Funds (Under GASB 54):					
Restricted Fund Balance	$ 109	$ 21,582	N/A	N/A	N/A
Committed Fund Balance	518,374	600,125	N/A	N/A	N/A
Assigned Fund Balance	532,466	339,337	N/A	N/A	N/A
Unassigned Fund Balance	$ (408,575)	(766,665)	N/A	N/A	N/A
Total All Other Governmental Funds	$ 642,374	$ 194,379	N/A	N/A	N/A

Note: Beginning fiscal year 2011, the fund balance categories were reclassified as a result of implementing GASB Statement 54. Fund balance has not been restated for prior years.

STATE OF HAWAII

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2012	2011	2010	2009	2008
Revenues:					
Taxes:					
General excise tax	$ 2,774,636	$ 2,507,980	$ 2,279,310	$ 2,410,756	$ 2,597,121
Net income tax — corporations and individuals	1,633,412	1,473,188	1,408,965	1,373,893	1,637,265
Public service companies tax	150,528	117,940	157,661	126,069	127,481
Transient accommodations tax	138,529	60,839	32,635	14,408	17,756
Tobacco and liquor taxes	170,824	173,851	149,596	135,388	134,886
Liquid fuel tax	88,842	91,265	82,780	88,006	90,123
Tax on premiums of insurance companies	119,472	140,586	105,848	95,181	96,332
Vehicle weight and registration tax	98,187	59,476	58,659	59,392	60,842
Rental motor/tour vehicle surcharge tax	106,417	43,892	40,401	39,751	49,196
Franchise tax	7,229	33,682	20,666	28,075	20,213
Other	70,873	67,799	32,165	19,215	26,149
Total taxes	5,358,949	4,770,498	4,368,686	4,390,134	4,857,364
Interest and investment income (loss)	5,347	55,854	124,518	(42,051)	115,247
Charges for current services	337,765	348,108	364,893	357,078	341,371
Intergovernmental	2,238,639	2,567,266	2,432,369	2,090,058	1,807,376
Rentals	25,421	23,319	19,712	21,107	20,152
Fines, forfeitures, and penalties	35,083	34,712	35,982	33,888	32,618
Licenses and fees	46,390	41,557	36,641	33,324	31,731
Revenues from private sources	65,085	54,857	57,850	63,401	59,508
Other	152,091	343,318	182,367	246,369	131,291
Total revenues	8,264,770	8,239,489	7,623,018	7,193,308	7,396,658
Expenditures:					
Current:					
General government	487,596	487,848	436,290	597,210	537,541
Public safety	454,957	423,716	457,058	435,414	411,152
Highways	414,629	376,780	442,971	442,421	406,795
Conservation of natural resources	98,428	93,600	88,873	120,693	103,596
Health	729,841	757,482	801,923	798,026	863,914
Welfare	2,443,936	2,526,743	2,315,726	2,119,481	1,857,473
Lower education	2,330,130	2,208,303	2,325,066	2,454,668	2,201,901
Higher education	672,716	707,380	700,335	878,127	815,116
Other education	16,753	14,018	14,033	29,912	23,206
Culture and recreation	109,974	117,306	108,536	107,302	110,404
Urban redevelopment and housing	48,484	135,141	115,796	179,819	255,783
Economic development and assistance	147,445	158,104	166,320	169,547	149,075
Other	58,241	12,223	28,613	3,084	5,880
Debt service					
Principal	313,721	191,244	179,624	204,604	231,478
Interest and others	274,039	266,737	248,551	197,118	247,257
Total Expenditures	8,600,890	8,476,625	8,429,715	8,737,426	8,220,571
Deficiency of Revenues Over Expenditures	(336,120)	(237,136)	(806,697)	(1,544,118)	(823,913)
Other Financing Sources (Uses):					
Proceeds from borrowing and refunding	1,600,308	-	1,150,482	1,174,768	445,687
Payments to escrow agent	(565,801)	-	(619,708)	(349,697)	(29,510)
Transfers in	950,717	921,433	721,810	761,393	803,456
Transfers out	(950,717)	(921,433)	(721,810)	(761,393)	(803,456)
Other	-	37,889	4,415	-	-
Total Other Financing Sources	1,034,507	37,889	535,189	825,071	416,177
Net Change in Fund Balances	$ 698,387	$ (199,247)	$ (271,508)	$ (719,047)	$ (407,736)
Debt service as a percentage of noncapital expenditures	7.3 %	5.7 %	5.6 %	4.8 %	6.2 %

PERSONAL INCOME BY INDUSTRY
LAST TEN FISCAL YEARS
(Amounts in millions)

	For the Fiscal Year Ended June 30,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Farm Earnings	$ 288	$ 288	$ 250	$ 232	$ 220	$ 213	$ 210	$ 213	$ 221	$ 217
Nonfarm Wage and Salary Workers:										
Goods-producing industries:										
Forestry, fishing-related activities, and other	60	42	45	36	47	42	53	54	56	65
Mining	35	33	51	44	45	55	53	50	45	37
Construction	3,046	2,843	2,598	2,714	3,271	3,188	3,004	2,736	2,231	2,067
Manufacturing – durable and nondurable goods	767	768	766	807	874	1,003	1,000	916	887	753
Subtotal Goods-Producing Industries	3,908	3,686	3,460	3,601	4,237	4,288	4,110	3,756	3,219	2,922
Service-producing industries										
Transportation, communication, and utilities	1,889	1,783	1,718	1,714	1,826	1,926	1,831	1,760	1,631	1,474
Trade	3,768	3,666	3,651	3,636	3,817	3,654	3,540	3,366	3,151	2,983
Information	645	711	732	657	711	759	758	690	694	650
Finance, insurance, and real estate	2,329	2,081	2,014	2,044	2,126	2,311	2,367	2,308	2,155	1,957
Service	15,438	15,075	14,901	14,514	14,723	13,611	13,013	12,226	11,592	10,622
State and local government	5,425	5,327	5,609	5,609	5,372	5,023	4,747	4,443	4,101	3,862
Federal government	10,094	9,531	9,252	9,077	8,258	7,745	7,249	6,751	6,280	5,716
Subtotal Service-Producing Industries	39,588	38,174	37,877	37,251	36,833	35,029	33,505	31,544	29,604	27,264
Total Nonfarm Wage and Salary Workers	43,496	41,860	41,337	40,852	41,070	39,317	37,615	35,300	32,823	30,186
Other(1)	16,144	15,981	14,661	13,329	12,891	10,601	9,514	8,598	7,984	7,433
Total Personal Income	$59,928	$58,129	$56,248	$54,413	$54,181	$50,131	$47,339	$44,111	$41,028	$37,836
Total direct income tax rate(2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance.
(2) The total direct rate for personal income is not available.
Source: State of Hawaii Department of Business, Economic Development and Tourism - Data Book and Quarterly Statistical and Economic Report (QSER)
N/A Not available.

STATE OF HAWAII

PERSONAL INCOME TAX RATES
LAST SIX CALENDAR YEARS

	Top Income Tax Rate is Applied to Taxable Income in Excess of					
Year	Top Rate	Single	Top Rate	Married Filing Jointly	Top Rate	Head of Household
2012	11.00% + $16,379	$ 200,000	11.00% + $32,757	$ 400,000	11.00% + $24,568	$ 300,000
2011	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2010	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2009	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2008	8.25% + $3,214	48,000	8.25% + $6,427	96,000	8.25% + $4,820	72,000
2007	8.25% + $3,214	48,000	8.25% + $6,427	96,000	8.25% + $4,820	72,000

Source: State of Hawaii, Department of Taxation.

STATE OF HAWAII

PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL
CALENDAR YEARS 2006 AND 1999

2006

Income Level(1)	Number of Filers(2)	Percentage of total	Personal Income Tax Liability	Percentage of Total
Under $5,000	36,968	7.0 %	$ 975,091	0.1 %
$5,000–$10,000	48,434	9.2	6,256,133	0.4
$10,000–$20,000	87,084	16.5	40,332,199	2.6
$20,000–$30,000	77,271	14.7	77,913,432	5.0
$30,000–$40,000	62,144	11.8	95,268,983	6.1
$40,000–$50,000	43,425	8.3	89,482,585	5.7
$50,000–$75,000	72,305	13.7	209,998,273	13.5
$75,000–$100,000	41,275	7.8	173,571,460	11.1
$100,000 and over	57,947	11.0	863,922,316	55.5
	526,853	100.0 %	$ 1,557,720,472	100.0 %

1999

Income Level(1)	Number of Filers(2)	Percentage of total	Personal Income Tax Liability	Percentage of Total
Under $5,000	44,672	9.6 %	$ 1,336,390	0.1 %
$5,000–$10,000	54,505	11.7	8,114,219	0.8
$10,000–$20,000	88,968	19.0	46,173,613	4.7
$20,000–$30,000	74,230	15.9	81,860,752	8.3
$30,000–$40,000	50,509	10.8	84,056,955	8.5
$40,000–$50,000	37,369	8.0	81,468,836	8.2
$50,000–$75,000	59,469	12.7	182,083,159	18.3
$75,000–$100,000	28,243	6.0	128,502,791	12.9
$100,000 and over	29,573	6.3	379,881,765	38.2
	467,538	100.0 %	$ 993,478,480	100.0 %

(1) Income Level = Hawaii Adjusted Gross Income.
(2) Number of Filers = All resident returns and taxable nonresident returns filed.

Source: State of Hawaii, Department of Taxation, Tax Research & Planning Office

Note: Calendar year 2006 is the most recent year available.

STATE OF HAWAII

TAXABLE SALES BY INDUSTRY
LAST FIVE FISCAL YEARS
(Amounts in millions)

	For the Fiscal Year Ended June 30, 2012				
	2012	2011	2010	2009	2008
Taxable Sales by Activities:					
Retailing	$ 29,095	$ 25,887	$ 23,919	$ 24,318	$ 26,183
Services	12,696	11,944	11,154	11,059	11,073
Contracting	6,253	5,687	5,864	7,631	7,863
Hotel rentals	3,431	3,024	2,606	2,812	3,321
All other rentals	6,154	5,999	5,778	6,094	5,818
All other (4%)	5,160	4,825	4,360	4,375	5,238
Subtotal	62,789	57,366	53,681	56,289	59,496
Producing	401	370	340	405	457
Manufacturing	681	698	704	809	761
Wholesaling	14,442	13,121	12,207	12,502	13,746
Use (1/2%)	8,005	6,669	6,430	6,883	7,215
Services (Intermediary)	653	577	572	611	649
Insurance solicitors	477	480	502	535	544
Subtotal	24,659	21,915	20,755	21,745	23,372
Total All Activities	$ 87,448	$ 79,281	$ 74,436	$ 78,034	$ 82,868

General excise and use tax is imposed on the gross income received by the business as follows:

- 4% of sales of tangible personal tangible property, services, contracting, theater amusement and broadcasting, commissions, transient accommodations rentals, other rentals, interest, and other business activities;
- 0.5% of sales from wholesaling, manufacturing, producing, wholesale services, and imports for resale;
- 0.15% on insurance producer commissions.

Source: State of Hawaii, Department of Taxation - Monthly Tax Collection Reports.

STATE OF HAWAII

SALES TAX REVENUE PAYERS BY INDUSTRY
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	2012		2011		2010		2009		2008	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
Retailing	$1,163,805	43.1 %	$1,035,465	41.5 %	$ 956,761	41.3 %	$ 972,728	40.1 %	$1,047,340	40.0 %
Services	507,864	18.8 %	477,753	19.3%	446,142	19.3 %	442,356	18.3 %	442,909	16.9 %
Contracting	250,122	9.3 %	227,497	9.1%	234,562	10.1 %	305,241	12.6 %	314,538	12.2 %
Theater, amusement, etc.	15,776	0.6 %	14,945	0.6%	13,378	0.6 %	13,557	0.6 %	13,998	0.5 %
Interest	4	0.0 %	74	-	191	.0 %	339	.0 %	7,963	0.3 %
Commissions	38,848	1.4 %	36,574	1.5%	33,024	1.4 %	35,230	1.5 %	42,500	1.6 %
Hotel rentals	137,222	5.1 %	120,954	4.8%	104,260	4.5 %	112,484	4.6 %	132,841	5.1 %
All other rentals	246,151	9.1 %	239,944	9.6%	231,123	10.0 %	243,762	10.1 %	232,718	8.9 %
Use (4%)	41,797	1.6 %	37,316	1.5%	34,484	1.5 %	34,088	1.4 %	39,034	1.5 %
All other (4%)	109,989	4.1 %	104,073	4.2%	93,327	4.0 %	91,761	3.8 %	106,040	4.0 %
Pineapple canning	-	- %	-	-	-	.0 %	-	.0 %	-	.0 %
Producing	2,004	0.1 %	1,850	0.1%	1,697	0.1 %	2,023	0.1 %	2,286	0.1 %
Manufacturing	3,402	0.1 %	3,488	0.1%	3,517	0.2 %	4,045	0.2 %	3,804	0.1 %
Wholesaling	72,210	2.7 %	65,608	2.6%	61,036	2.6 %	62,509	2.6 %	68,730	2.6 %
Use (1/2%)	40,026	1.5 %	33,347	1.3%	32,152	1.4 %	34,415	1.4 %	36,073	1.4 %
Services (Intermediary)	3,265	0.1 %	2,886	0.1%	2,862	0.1 %	3,054	0.1 %	3,242	0.1 %
Insurance solicitors	716	0.0 %	721	-	753	.0 %	803	.0 %	815	.0 %
Unallocated collections	64,750	2.4 %	93,312	3.7%	67,165	2.9 %	61,855	2.6 %	123,953	4.7 %
Total	$2,697,951	100.0 %	$2,495,807	100.0 %	$2,316,434	100.0 %	$2,420,250	100.0 %	$2,618,784	100.0 %

Source: State of Hawaii, Department of Taxation - Monthly tax collection reports

Note: Information for number of filers is not available.

STATE OF HAWAII

RATIOS OF OUTSTANDING DEBT BY TYPE
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	For the Fiscal Year Ended June 30, 2012				
	2012	2011	2010	2009	2008
Governmental Activities:					
General obligation bonds	$ 5,475,348	$ 4,987,544	$ 5,157,198	$ 4,779,666	$ 4,408,572
Revenue bonds	468,180	378,625	400,215	420,605	268,425
Capital leases	95,340	100,520	64,385	71,685	75,480
Total Governmental Activities	6,038,868	5,466,689	5,621,798	5,271,956	4,752,477
Business-Type Activities:					
General obligation bonds	34,611	36,221	37,362	38,329	38,357
Revenue bonds	1,370,314	1,410,624	1,248,680	861,423	861,141
Total Business-Type Activities	1,404,925	1,446,845	1,286,042	899,752	899,498
Total Primary Government	$ 7,443,793	$ 6,913,534	$ 6,907,840	$ 6,171,708	$ 5,651,975
Hawaii Total Personal Income	$59,928,000	$58,129,000	$56,248,000	$54,413,000	$54,181,000
Debt as a Percentage of Personal Income	12.4 %	11.8 %	12.3 %	11.3 %	10.4 %
Hawaii Population	1,392	1,375	1,300	1,295	1,287
Amount of Debt Per Capita	$ 5,348	$ 5,003	$ 5,314	$ 4,743	$ 4,392

Source: State of Hawaii Comprehensive Annual Financial Reports.
State of Hawaii, Department of Business, Economic Development and Tourism - Data Book, Census Data and Quarterly Statistic and Economic Reports (QSER).

Note: Details regarding the State's outstanding debt can be found in the notes to basic financial statements

STATE OF HAWAII

RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING
LAST FIVE FISCAL YEARS
(Amounts in thousands except ratio data)

Fiscal Year	Taxable Sales (1)	Population (2)	General Obligation Bonded Debt (3)(4)	Less Debt Service Monies Available (3)	Net General Obligation Bonded Debt	Percentage of Taxable Sales	Net General Obligation Bonded Debt Per Capita
2012	$ 87,448,000	1,392	$ 5,509,959	$ 64	$ 5,509,895	6.3 %	$ 3,958
2011	79,281,000	1,375	4,987,544	109	4,987,435	6.3	3,627
2010	74,436,000	1,300	5,157,198	118	5,157,080	6.9	3,967
2009	78,034,000	1,295	4,779,666	68	4,779,598	6.1	3,691
2008	82,868,000	1,287	4,408,572	22,002	4,386,570	5.3	3,408

(1) Source: State of Hawaii, Department of Taxation.
(2) Source: State of Hawaii, Department of Business, Economic Development and Tourism - Census Data.
(3) Source: State of Hawaii, Department of Accounting and General Services, Accounting Division.
(4) Excludes Enterprise Funds and Component Unit – UH general obligation bonds.

STATE OF HAWAII

LEGAL DEBT MARGIN INFORMATION
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	For the Fiscal Year Ended June 30, 2012				
	2012	2011	2010	2009	2008
Average General Fund revenues of the three preceding fiscal years	$ 5,197,547	$ 4,992,943	$ 5,032,973	$ 5,126,782	$ 5,083,126
Constitutional debt limit percentage	18.5 %	18.5 %	18.5 %	18.5 %	18.5 %
Constitutional debt limit for total principal and interest payable in a current or future year	961,546	923,694	931,100	948,455	940,378
Less total principal and interest payable on outstanding general obligation bonds in highest debt service year (fiscal year ending June 30, 2012)	(667,041)	(618,711)	(610,255)	(563,266)	(540,348)
Legal debt margin	$ 294,505	$ 304,983	$ 320,845	$ 385,189	$ 400,030
Legal debt margin as a percentage of the debt limit	30.6 %	33.0 %	34.5 %	40.6 %	42.5 %

The formula for the legal debt limit is contained in Article VII, Section 13 of the State Constitution.

STATE OF HAWAII

PLEDGE REVENUE COVERAGE
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	For the Fiscal Year Ended June 30, 2012				
	2012	2011	2010	2009	2008
Revenue Bonds – Airports					
Gross revenue(1)	$ 319,542	$ 322,639	$ 295,087	$ 288,583	$ 307,418
Less: Operating expenses(2)	230,224	218,290	214,208	233,896	239,667
Net available revenue	89,318	104,349	80,879	54,687	67,751
Debt service requirements:					
Principal(3)	30,579	25,370	23,615	22,310	21,140
Interest(4)	34,440	35,319	21,300	17,453	26,076
Total Debt Service	65,019	60,689	44,915	39,763	47,216
Coverage(5)	137 %	172 %	180 %	148 %	143 %
Revenue Bonds – Harbors:					
Gross revenue(6)	$ 104,678	$ 88,018	$ 74,155	$ 80,896	$ 96,256
Less: Operating expenses(7)	41,202	37,650	36,930	47,814	49,229
Net available revenue	63,476	50,368	37,225	33,082	47,027
Debt service requirements	27,770	27,965	23,226	23,167	24,290
Coverage(8)	229 %	180 %	160 %	143 %	194 %
Revenue Bonds – Highways:					
Revenue	$ 232,543	$ 197,142	$ 184,852	$ 189,498	$ 213,378
Less: Operating expenses	173,811	165,857	179,400	189,987	184,097
Net available revenue	58,732	31,285	5,452	(489)	29,281
Debt service:					
Principal	22,465	21,570	20,535	16,150	15,495
Interest	18,906	17,195	18,028	15,823	12,930
Total Debt Service	41,371	38,765	38,563	31,973	28,425
Coverage(9)	142 %	81 %	14 %	(2)%	103 %
Revenue Bonds – Department of Hawaiian Home Lands:					
Revenue	$ 12,078	$ 12,036	$ 11,939	$ -	$ -
Less: Operating expenses	-	-	-	-	-
Net available revenue	12,078	12,036	11,939	-	-
Debt service:					
Principal	680	655	640	-	-
Interest	2,328	2,254	2,370	-	-
Total Debt Service	3,008	2,909	3,010	-	-
Coverage(10)	402 %	414 %	397 %	- %	- %

(1) Total operating revenues plus interest income and federal operating grants, exclusive of interest earned on investment in financing leases.
(2) Total operating expenses other than depreciation less (plus) excess of actual disbursements over (under) required reserve for major maintenance, renewal, and replacement plus amounts required to be paid into the General Fund for general obligation bond requirements.
(3) On January 5, 2005, Airports disbursed $69,300 for the Airport Revenue Fund to the paying agent to redeem the outstanding balance of the Airports System Revenue Bonds, Refunding Series of 2003 in its entirety
(4) For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes.
For fiscal 2005, Airports deposited $20,000,000 of available funds into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal 2005 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds.
For fiscal 2008, Airports deposited $10,000 of available funds into the Airports Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal 2008 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."
(5) Airports revenue bond indentures require a minimum debt service coverage percentage of 125%.
(6) Total operating and nonoperating revenues exclusive of interest income on investment in financing leases and special facility construction fund and revenue fund investments.
(7) Total operating expenses other than depreciation, less State of Hawaii surcharge for central service expenses.
(8) Harbors revenue bond indentures require a minimum debt service coverage percentage of 125%.
(9) Highways revenue bond indentures require a minimum debt service coverage percentage of 100% during a routine year, 200% during the year bonds are issued, and 135% is required for any year Highways' funds are transferred out (i.e., General Fund).
(10) DHHL revenue bond indentures require a minimum debt service coverage percentage of 125%.

Coverage equals net available revenue divided by debt services.

Source: Airports Audited Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Airports Division
Harbors Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Harbors Division
Highways Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Highways Division

STATE OF HAWAII

DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

	For the Fiscal Year Ended June 30, 2012									
Source	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Population (in thousands):										
State	1,392	1,375	1,300	1,298	1,292	1,299	1,285	1,266	1,253	1,239
Percentage change	1.24%	5.77 %	0.15 %	0.46 %	(0.54)%	1.09 %	1.50 %	1.04 %	1.13 %	0.90 %
National	313,914	311,592	308,746	307,007	304,375	301,580	298,593	295,753	293,046	290,326
Percentage change	0.75 %	0.92 %	0.57 %	0.86 %	0.93 %	1.00 %	0.96 %	0.92 %	0.94 %	0.88 %
Total Personal Income (in millions):										
State	59,928	58,129	56,248	54,413	54,181	50,131	47,339	44,111	41,028	37,836
Percentage change	3.00 %	3.34 %	3.37 %	0.43 %	8.08 %	5.90 %	7.32 %	7.51 %	8.44 %	4.04 %
National	13,150,560	12,691,347	12,530,101	12,015,535	12,225,589	11,879,836	11,256,516	10,476,669	9,928,790	9,369,072
Percentage change	3.49 %	1.29 %	4.28 %	(1.72)%	2.91 %	5.54 %	7.44 %	5.52 %	5.97 %	3.47 %
Per Capita Personal Income (in thousands):										
State	43,584	42,276	43,268	42,018	42,099	39,073	37,013	34,788	32,718	30,513
Percentage change	3.00 %	(2.29)%	2.97 %	(0.19)%	7.74 %	5.57 %	6.40 %	6.33 %	7.23 %	3.12 %
National	42,204	40,731	40,584	39,138	40,166	39,392	37,698	35,424	33,881	32,271
Percentage change	3.49 %	0.36 %	3.69 %	(2.56)%	1.96 %	4.49 %	6.42 %	4.45 %	4.99 %	2.57 %
Resident Civilian Labor Force and Employment:										
Civilian labor force employed	615,333	591,329	587,304	594,500	620,000	623,150	622,300	609,850	598,200	592,450
Unemployed	43,321	39,941	41,600	43,250	26,000	17,000	15,800	17,250	19,950	23,850
Unemployment rate	6.60 %	6.30 %	6.60 %	6.80 %	4.00 %	2.70 %	2.50 %	2.80 %	3.20 %	3.90 %

Source: State of Hawaii, Department of Business, Economic Development and Tourism - Census, Data Book and Quarterly Statistical Economic Report (QSER).
Bureau of Economic Analysis - Regional Economic Accounts
State of Hawaii, Department of Labor and Industrial Relations - Hawaii Workforce Infonet (HIWI)

Note: The Per Capita Personal Income amount is computed by dividing Personal Income by Population, multiplied by 1,000.

STATE OF HAWAII

TEN LARGEST PRIVATE SECTOR EMPLOYERS
LAST SIX FISCAL YEARS

	2012		2011		2010		2009		2008		2007	
Employer	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment
Alexander & Baldwin, Inc.	2,100	0.3 %	2,300	0.4 %	2,215	0.3 %	2,386	0.4 %	2,255	0.4 %	-	- %
Aloha Airgroup, Inc.	-	-	-	-	-	-	-	-	3,399	0.5	3,465	0.5
Bank of Hawaii Corp.	2,451	0.4 %	2,484	0.4	2,418	0.4	N/A	N/A	N/A	N/A	N/A	N/A
First Hawaiian Bank	N/A	N/A	2,231	0.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hawaii Pacific Health	5,728	0.9 %	5,490	0.9	5,344	0.8	5,300	0.9	5,200	0.8	5,200	0.8
Hawaiian Airlines	4,314	0.7 %	4,000	0.6	3,844	0.6	3,700	0.6	3,415	0.5	3,587	0.6
Hawaiian Electric Industries, Inc	3,654	0.6 %	-		3,400	0.5	3,560	0.6	3,519	0.6	3,447	0.5
Hilton Waikoloa Village	N/A	N/A	4,645	0.7	3,200	0.5	2,766	0.5	3,099	0.5	-	-
Kaiser Permanente Hawaii	4,478	0.7 %	4,400	0.7	4,400	0.7	3,396	0.6	4,403	0.7	4,017	0.6
Kamehameha Schools	2,300	0.4 %	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Kyo-ya Co., Ltd.	3,410	0.5 %	3,700	0.6	3,535	0.6	3,851	0.6	3,639	0.6	3,764	0.6
McDonald's Restaurants of Hawaii	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3,775	0.6
NCL America	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4,461	0.7
Outrigger Enterprises Group	2,918	0.4 %	3,103	0.5	3,554	0.6	3,123	0.5	N/A	N/A	N/A	N/A
The Queen's Health System	5,176	0.8 %	5,166	0.8	5,148	0.8	5,059	0.8	4,903	0.8	4,834	0.8
Starwood Hotels and Resort Hawaii	N/A	N/A	N/A	N/A	N/A	N/A	2,425	0.4	2,700	0.4	2,382	0.4

Source: Hawaii Business News, Annual August Issue (Top Ten Largest Private Sector Employers)
State of Hawaii, Department of Labor and Industrial Relations - Hawaii Workforce Infonet - Labor (Total State Employment)

Notes: Total Annual Average Employment for Hawaii for fiscal year 2012, 2011, 2010, 2009, 2008, 2007 and 2006 totaled 657,400, 631,200, 635,800, 613,700, 632,900, 634,200 and 631,450, respectively.

Listed alphabetically.

STATE OF HAWAII

STATE EMPLOYEES BY FUNCTION
LAST FIVE FISCAL YEARS

	For the Fiscal Year Ended June 30, 2012				
	2012	2011	2010	2009	2008
General government	4,394	4,381	4,381	4,752	4,720
Public safety	2,903	2,864	2,880	3,089	3,011
Transportation	2,202	2,160	2,158	2,290	2,229
Conservation of natural resources	929	941	983	1,146	1,126
Health	6,919	6,876	6,863	7,266	6,730
Welfare	1,800	1,788	1,848	2,404	2,312
Lower education	22,065	21,917	22,090	22,675	22,620
Higher education	8,795	8,687	8,732	9,066	8,705
Other education	454	473	482	516	518
Urban redevelopment and housing	127	130	146	154	150
Economic development and assistance	815	816	835	1,141	865
Total	51,403	51,033	51,398	54,499	52,986

Source: State of Hawaii, Department of Human Resources Development.

STATE OF HAWAII

OPERATING INDICATORS BY FUNCTION
LAST FIVE FISCAL YEARS

	For the Fiscal Year Ended June 30, 2012				
	2012	2011	2010	2009	2008
General Government					
Tax Commission:					
Total individual net income returns	703,262	747,237	665,057	682,178	678,305
Number of individual net income returns filed electronically	430,421	388,463	322,515	308,366	271,212
Percentage of individual net income returns transmitted electronically	61.20 %	52.00 %	48.00 %	45.20 %	39.98 %
Public Safety					
Inmate population:					
In-state facilities	4,396	4,423	4,047	3,928	6,014
Out-of-state facilities	1,677	1,667	1,940	2,077	2,014
Total	6,073	6,090	5,987	6,005	8,028
Conservation and Natural Resources					
Department of Parks and Recreation:					
Number of state-owned parks	53	53	53	53	53
Health					
Environmental health:					
Air quality sites monitored	12	14	13	14	14
Water quality stations	193	201	290	349	271
Mental health:					
Adult consumers served	11,062	11,194	14,633	15,772	15,586
Individuals with developmental disabilities served	2,558	2,438	2,661	2,879	2,821
Revolving loan funds	120	109	107	102	90
Welfare					
Temporary assistance to needy families recipients/temporary assistance to other needy families recipients (TANF/TAONF):					
Families per-month average	10,300	10,014	9,448	8,661	8,358
Average time on assistance	13.5	13.0	15.0	14.0	13.0
Monthly benefits paid for the month of July (in millions)	$ 6.42	$ 6.17	$ 5.29	$ 3.46	$ 4.75
General assistance:					
Individuals per month	5,633	5,298	5,068	5,014	4,458
Food stamp program:					
Number of persons participating	172,676	154,496	133,043	109,268	93,956
Number of households participating	86,418	77,133	66,885	54,925	47,545
Benefits issued (in millions)	$ 37.18	$ 33.42	$ 28.74	$ 20.22	$ 14.64
Medicaid programs:					
MedQuest enrollment (in thousands)	287,902	272,218	259,307	235,203	211,105
Lower Education					
Number of schools	286	287	286	289	287
Number of students	181,213	178,208	178,649	177,871	178,369
Staff:					
Classroom teachers	11,458	11,046	11,262	11,294	11,396
Librarians	199	204	225	249	258
Counselors	627	618	646	660	660
Administrators	806	734	728	747	773
Other support staff	8,975	8,408	8,607	8,654	8,566
Total	22,065	21,010	21,468	21,604	21,653

STATE OF HAWAII

OPERATING INDICATORS BY FUNCTION (CONT'D)
LAST FIVE FISCAL YEARS

	For the Fiscal Year Ended June 30,				
	2012	2011	2010	2009	2008
Higher Education					
Enrollment:					
Number of credit students	60,295	60,330	60,090	57,945	53,526
Degrees earned:					
Certificates/Associate Degrees/Advanced Professional Certificates	3,638	3,324	3,025	2,785	2,660
Bachelor's degrees	4,055	3,796	3,593	3,705	3,698
Master's degrees/Professional Diploma	1,287	1,269	1,216	1,185	1,269
Doctor's degrees/First Professional	494	496	351	354	369
Other	154	103	106	55	-
Total	9,628	8,988	8,291	8,084	7,996
Degrees by campus/college:					
University of Hawaii at Manoa	4,767	4,675	4,414	4,496	4,566
University of Hawaii at Hilo	915	731	601	614	588
University of Hawaii at West Oahu	301	255	242	221	180
Hawaii Community College	452	405	426	386	346
Honolulu Community College	565	559	486	504	520
Kapiolani Community College	987	851	783	702	685
Kauai Community College	196	208	162	163	139
Leeward Community College	721	657	608	503	475
Maui Community College	560	482	416	364	367
Windward Community College	164	165	153	131	130
Total	9,628	8,988	8,291	8,084	7,996

N/A Not available

Notes: Migration to new registration system at the UH Community Colleges in Fall 2006 and at UH at Manoa, UH at Hilo, and UH at West Oahu in Fall 2006.

Source: General Government – State of Hawaii, Department of Taxation.
Public Safety – State of Hawaii, Department of Public Safety.
Conservation of Natural Resources – State of Hawaii, Department of Land and Natural Resources.
Health – State of Hawaii, Department of Health.
Welfare – State of Hawaii, Department of Human Services.
Lower Education – State of Hawaii, Department of Education.
Higher Education – University of Hawaii.

See accompanying independent auditors' report.

STATE OF HAWAII

CAPITAL ASSETS STATISTICS BY FUNCTION
LAST THREE FISCAL YEARS

	For the Fiscal Year Ended June 30, 2012		
	2012	**2011**	**2010**
General Government			
Department of Accounting and General Services:			
Buildings	74	74	74
Vehicles	600	592	582
Department of the Attorney General:			
Buildings	5	5	5
Vehicles	3	3	3
The Judiciary:			
Buildings	18	18	18
Vehicles	18	17	16
Other Departments:			
Buildings	24	24	24
Vehicles	4	4	4
Public Safety			
Department of Public Safety:			
Buildings and Correction Facilities	74	74	73
Vehicles	277	278	277
Department of Defense:			
Buildings	97	97	96
Vehicles	112	81	79
Department of Commerce and Consumer Affairs:			
Buildings	4	4	4
Vehicles	-	-	1
Highways			
Department of Transportation:			
Highway lane miles	N/A	N/A	2497
Highway bridges	N/A	N/A	752
Buildings	36	34	34
Vehicles	951	958	968
Conservation of Natural Resources			
Department of Land and Natural Resources:			
Land area (in square miles)	6,423	6423	6423
Buildings	93	95	95
Vehicles	756	758	732
Department of Agriculture:			
Buildings	32	32	32
Vehicles	170	176	186

	For the Fiscal Year Ended June 30, 2012		
	2012	**2011**	**2010**
Health			
Department of Health:			
Buildings	74	74	74
Vehicles	252	259	270
Welfare			
Department of Human Services:			
Buildings	18	18	18
Vehicles	107	111	111
Lower Education			
Department of Education:			
Buildings	8	8	8
Other Education			
Department of Education — Libraries:			
Buildings	34	34	34
Vehicles	28	27	28
Urban Redevelopment and Housing			
Department of Hawaiian Home Lands:			
Buildings	18	18	18
Vehicles	33	34	34
Economic Development and Assistance			
Department of Business, Economic Development, and Tourism:			
Buildings	33	33	33
Vehicles	32	33	34
Department of Labor and Industrial Relations:			
Buildings	8	8	8
Vehicles	2	2	2

Source: Buildings and Vehicles — State of Hawaii, Department of Accounting and General Services.
Lane Miles and Bridges — State of Hawaii, Department of Transportation.
Land Area — State of Hawaii, Data Book 2009.

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